

# FINANCIAL TIMES

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MONDAY FEBRUARY 1 1999



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## Mastering Information Management

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## WORLD NEWS

### Palestinian council opposes May move to declare statehood

Palestinian Authority president Yasser Arafat has been told by his legislative council to abandon plans to declare a state on May 4. More than 80 per cent of council deputies opposed a unilateral declaration. Instead they want reforms to prepare for statehood. Page 14

**Iraqi military sites attacked**  
US and British warplanes again attacked Iraqi targets. A US jet fired at a radar site in the northern no-fly zone and US and British aircraft attacked Iraqi facilities in the south. Baghdad attacks move to review UN ties. Page 4

**Europe's socialists target jobs**  
Left of centre-led governments in the European Union are planning measures to boost employment. They hope to offset the effect of weaker exports on growth and jobs. International, Page 2

**Gibraltar fishing dispute worsens**  
Abel Matutes, Spain's foreign minister, warned of a diplomatic crisis over Gibraltar because London had not guaranteed a deal granting Spanish trawlers continued local fishing access. International, Page 2

**Parliamentarian bows out**  
Tom Spencer, a senior Member of the European Parliament from Britain's Conservative party, withdrew from European parliament elections after cannabis and a gay sex video were found in his suitcase. UK, Page 6

**Kosovo talks may go ahead**  
The six-nation Contact Group on Kosovo expects Yugoslav president Slobodan Milosevic and the Kosovo Liberation Army to attend peace talks this week. Page 2

**Lewinsky set to testify**  
Monica Lewinsky, the former White House worker at the centre of charges against President Bill Clinton, will open a new phase of his impeachment trial when she testifies behind closed doors today. International, Page 3

**South Korea against conspiracy**  
South Korea risks complacency over the degree to which it has overcome its economic crisis, a senior international Monetary Fund official warned, and it is still too early to say sustainable recovery has been achieved. International, Page 4

**Answer trial to continue**  
A judge trying Anwar Ibrahim ruled that Malaysia's ousted finance minister had a case to answer. He is accused of abusing his authority by directing police to obtain retractions from people who accused him of sex offences. International, Page 4

**Lusty duck's day of reckoning**  
The UK government is to declare war on the lust-crazed ruddy duck, which is wreaking ecological havoc across Europe. Britain has been under pressure to start exterminating some 4,000 of the native American ducks which have made the UK their home. UK, Page 6

## BUSINESS NEWS

### Italian ruling may hit Murdoch plan for pay-TV football

The Italian government hopes to limit the broadcast rights of any one pay-TV organisation to 60 per cent of Serie A football matches. Rupert Murdoch's News Corporation Europe is seeking all rights. Page 15

**Fujian International Trust and Investment Corporation**, a Chinese trust and investment company, had provisional credit lines worth \$100m cancelled by foreign banks. Page 15

**General Motors** said it was not seeking to take over Nissan and had no plans to top Ford Motor's offer for Volvo cars. Page 16; Volvo woos other truck companies. Page 17

**Merrill Lynch**, US investment bank, paid the Belgian government around \$100m to settle a dispute over currency derivative transactions. Page 15

**British Petroleum** and Amoco of the US escaped more than \$800m in duty on their merger because of a loophole in UK tax laws. Page 6

**Elektrobras**, the Brazilian government's electricity holding company, is to be privatised in July despite the country's economic turmoil, officials said. Page 15; Lex, Page 14

**MarphoSys** of Germany and two other biotechnology companies plan to enter European markets in offerings that aim to raise a total of \$100m. Page 18

**Astar**, Spanish transport and logistics group, said it had been swamped by non-Spanish institutional demand for an initial public offering worth Ptas24.6bn (£148m, \$171m). Page 21

**National Bank of Greece**, the country's biggest bank, reported a 103 per cent increase in pre-tax 1998 profits to Dr130bn (\$460m) after completing a merger with its housing subsidiary, National Mortgage Bank. Page 21

**Dresdner Bank** of Germany is to launch an investment company aimed at giving institutional clients higher yields. Page 18

**Société Générale** and Paribas, the French banks, are reported to have revived talks over a possible link-up. Page 17

**European insurance companies** and brokers face heavy losses from a three-year foray into financing independent films, Hollywood executives said. Page 3

**Lex on M&A in Japan**  
Japanese bosses  
have to get on  
Page 14

## AXA's £3.6bn bid set to win GRE

By Andrew Bolger,  
Insurance Correspondent

French group's US strategy squeezes out rivals for UK insurer

Guardian Royal Exchange, the UK composite insurer, is expected to announce today it has accepted an offer from Axa, the French insurance group, that values it at about £3.6bn (\$5.9bn), or 38p a share. Axa made its bid for GRE, one of the UK's oldest companies, through Sun Life and Provincial Holdings, the UK composite in which it holds a 72 per cent stake. GRE shareholders will be offered cash and shares in Sun Life and Provincial, which will become third largest UK insurer behind CGU and Royal & Sun Alliance. Although last-minute discus-

sions could delay the official announcement by 24 hours, Axa learned on Saturday it had come from behind to grasp control of GRE from Eureka, an alliance of seven European insurers, and Royal & Sun – the only other bidders by Friday's deadline. GRE shares closed at 387½p on Friday. Axa appears to have tipped Eureka because it has lined up buyers for the GRE general business in the US that neither company wanted to take on. Axa has agreed to sell the US business to Liberty Mutual of the US for about \$1.5bn. It will also sell Albionia, GRE's German operation, to Colonia, the French

group's own German arm for nearly \$600m. Eureka, which tabled a cash offer of 38p per share, was willing to take on GRE's US operations temporarily, but had been unable to complete due diligence and its offer was conditional in certain respects. GRE said it believed Axa's was the best "clean" offer on the table. Royal & Sun, which also offered a mixture of cash and shares worth almost 390p, fell out of the running on Friday because of the GRE board's suspicion of the paper element of the bid. Royal and Sun's shares had fallen 5 per cent since the com-

pany's interest was confirmed recently, and GRE feared the shares would fall further if a deal was concluded. Sun Life and Provincial's shares have outperformed the market over the past two months, largely because investors believed Axa had dropped out of the race for GRE. The deal would complete the rapid consolidation of the UK insurance market over the past two years. It has seen CGU created from the merger of Commercial Union and General Accident and Royal & Sun Alliance formed from Royal Insurance and Sun Alliance. However, it would not address

of the problem of overcapacity that has plagued the UK general insurance market. The Axa takeover will mean far fewer redundancies than would have been sought by a UK competitor such as Royal & Sun. Peter Owen, GRE's chief executive designate, is likely to be given a senior role in the enlarged organisation. The takeover will enhance the formidable deal-making reputation of Claude Claude Bebear, Axa's chairman, who has built the group into one of Europe's biggest insurers through acquisition and aggressive asset management. Consolidation continues, Page 16 Lex, Page 14

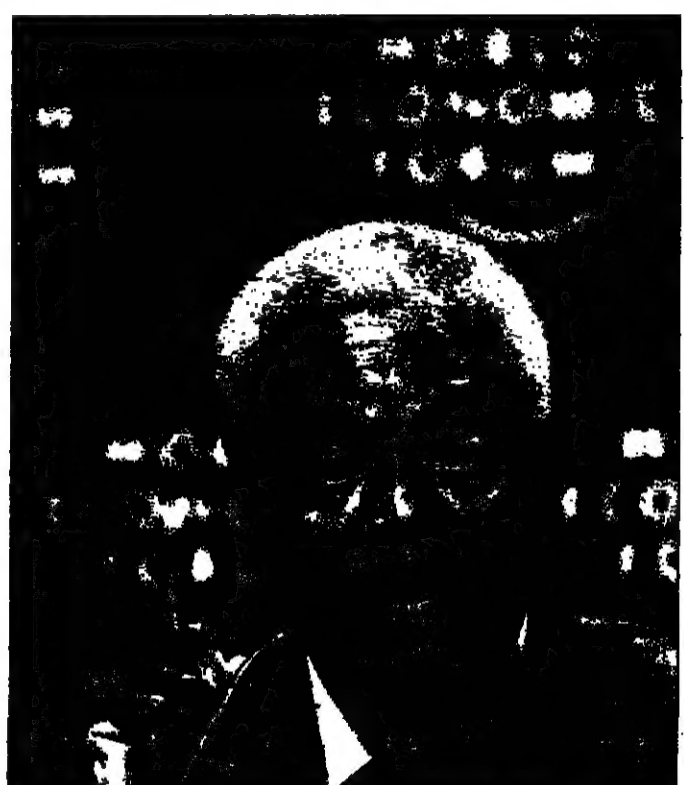
## MICROSOFT CHIEF ADDS HIS VOICE TO WARNINGS ON SECTOR

### Internet stocks are priced too high says Gates

By Peter Martin in Davos

Bill Gates, chairman of Microsoft, yesterday joined the ranks of those who believe internet stocks are overvalued, but said his company would probably "participate in this frenzy a little bit" by making further acquisitions. Speaking at the annual meeting of the World Economic Forum in Davos, Switzerland, Mr Gates said internet stock valuations were "breathtaking". "I don't recommend internet stocks to people who don't like massive risk," he said, "especially at current levels. People are jumping into it like it's gold rush."

Similar comments have come in recent weeks from Alan Greenspan, chairman of the US Federal Reserve, and from Rupert Murdoch, chairman of News Corporation. Mr Gates said internet stocks were merely an extreme case of an issue that affected the whole industry. "I do find the valuations of high-tech companies in general surprisingly high," he said. However, he had held this view for over a decade, even when price/earnings ratios were at lower levels than they are today. "So obviously that view that they were going to go down



UN secretary-general Kofi Annan discussing workers' rights with business leaders at the World Economic Forum yesterday. Picture: AP

didn't prove out. In the long run, will I be right? I think so." Investors tended to underestimate the impact of the intense competition in technology markets, he said. Technology companies should be valued at a discount to the shares of companies like Disney and Coca-Cola, which had stable long-term earnings. Higher prices would make it harder to justify acquisitions, he said, "but I'm not saying that we won't participate in this frenzy a little bit."

Everybody in the industry had business plans that aimed at becoming one of the top three players on the internet. "Believe me, those business plans exist at Microsoft too – except it probably doesn't say 'top three', it's something more ambitious." Overall, the internet share price boom would probably prove valuable to the US economy, he said.

Global PC demand, Page 4 Reports from Davos, Page 5 Trade pledge, Page 14

## Connections clamp cuts US phone bills

By Mark Stozman in Washington

US consumers are paying about a third less for international telephone calls than they were before the adoption of a controversial US policy a year ago.

According to preliminary calculations by the Federal Communications Commission, the unilateral imposition of a ceiling on connection rates paid by US telecommunications companies to foreign carriers is already having an impact on prices.

The FCC set the ceiling on rates it expected US carriers to pay their international counterparts from the beginning of 1998. The plan, which sets different targets and timetables for wealthier and less developed countries, aims to reduce the average cost of international calls from 88 cents a minute in 1997 to about 25 cents a minute by 2003.

The FCC estimates the average price for US consumers of an international call fell to 60 cents a minute during 1998, with the cost of connections to countries such as the UK and Sweden as low as 12 cents a minute.

William Kennard, FCC chairman, said the reductions resulted from the success of the benchmarks policy and the growing liberalisation of global telecommu-

nications markets under the World Trade Organisation agreement that took effect last year. "We're now at the end of the beginning of the war against telephone monopolies."

The new rates were imposed after the US grew frustrated at repeated delays in agreeing worldwide reforms to the international settlements system under which such rates are negotiated. Because the US has relatively low domestic rates, the arrangement resulted in a large net payment by US companies to international carriers – an aggregate \$6.4bn in 1998.

FCC officials said price reductions in Europe had been satisfactory but progress in richer Asian states such as Singapore and Taiwan was slower and connection charges in big developing countries such as India and China remained "outrageous". Mr Kennard warned the FCC would pursue "an aggressive enforcement regime".

Under the policy, where a US carrier justifiably complains, the agency can in theory order the company not to pay more than the benchmark. Partly because of a long-running legal challenge by Cable and Wireless of the UK, claiming the FCC has no right to set unilateral rates, no such complaints have been brought.

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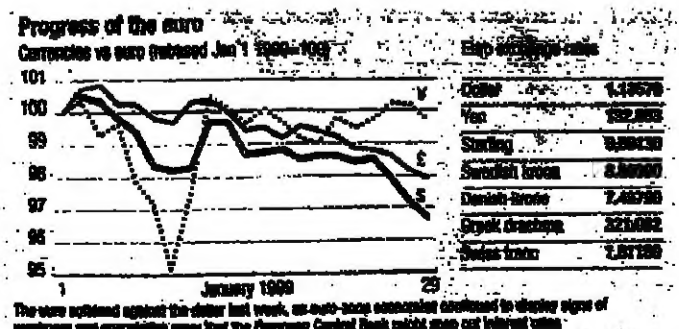
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Euro-zone target price £2.15. Prices in local currency at close		01/01/99
Belgium	101.300	101.300
France	100.000	100.000
Germany	100.000	100.000
Italy	100.000	100.000
Spain	100.000	100.000
UK	100.000	100.000
US	100.000	100.000
Japan	100.000	100.000
South Africa	100.000	100.000
Sweden	100.000	100.000
Switzerland	100.000	100.000
Denmark	100.000	100.000
Netherlands	100.000	100.000
Australia	100.000	100.000
Canada	100.000	100.000
India	100.000	100.000
China	100.000	100.000
South Korea	100.000	100.000
Singapore	100.000	100.000
Taiwan	100.000	100.000
Hong Kong	100.000	100.000



# WORLD NEWS

## EUROPE

LEFT-OF-CENTRE PARTIES SOCIALISTS AND SOCIAL DEMOCRATS MEETING IN VIENNA DISCUSS HOW TO SPUR GROWTH

## European leaders plan jobs drive

By Peter Norman in Vienna

The 11 left-of-centre governments in the European Union are planning measures to boost employment and offset the negative effect of weaker export markets on economic growth and jobs.

Leaders of European socialist and social democratic parties commissioned Antonio Guterres, the Portuguese prime minister, to head a working group to investigate scope for action at the national and European level and report to the forthcoming congress of the Party of European Socialists (PES) in Milan at the beginning of March.

Viktor Klima, the Austrian chancellor who launched the initiative, said Mr Guterres would develop ideas about how to encourage growth and employment through fiscal and investment policy and by co-ordinating the European Union and national budgets.

Speaking on Saturday after a two-day brainstorming session in Vienna of left-of-centre leaders that was attended by seven European prime ministers, Mr Klima said the plans would not endanger price stability, which is the responsibility of the European Central Bank.

While details of the socialist leaders' policy options remained sketchy, there was no doubting the concern felt by some about the dangers to growth and jobs in Europe from global economic developments.

Oskar Lafontaine, the Bonn finance minister and leader of the German Social Democratic party, warned that recession could come quite quickly, according to one participant.

"We all face a tougher situation in the next year or so," said Tony Blair, the UK prime minister, after the talks.

"It is essential we focus on the policies to provide people with the job opportunities of

the future in a new global market."

Mr Blair made clear that structural reform was vital in Europe and also essential to make the euro successful. To improve employability, Europe had to build a "workforce that is highly adaptable, well educated and well skilled, promote small enterprises, embrace new technological industries of the future and take measures to improve productivity and its ability to compete."

The role of government was "to make people better equipped to prosper" rather than "heavy handed intervention."

Mr Klima cited recent moves by the Austrian government to boost business research and development, improve vocational training, remove red tape, help with the foundation of new companies and support the hiring of social and environmental workers by local authorities as examples of how to create jobs.



Viktor Klima, Austrian chancellor (left), with Tony Blair, UK prime minister (right)

The Austrian leader also disclosed that, at his initiative, the PES would prepare an "action plan" against fraud and mismanagement in the EU to be debated in

Milan. The planned programme for probity, economy and control would highlight the need for greater transparency and more orderly spending practices.

It would be co-ordinated with the European parliament, the Commission and EU member states, which have also pledged to stamp out malpractice.

## Election manifesto strikes centrist chord

By Peter Norman in Vienna

Leaders of Europe's socialist and social democratic parties agreed a manifesto for the European parliament elections in June that is centrist in tone with commitments to "a modern economy that ensures growth, competitiveness and job creation".

The 10-page document, which will be published officially in Brussels on Wednesday, was agreed with minor modifications after what participants described as an uncontroversial discussion. Tony Blair, the British prime minister and the arch-exponent of non-socialist left-of-centre politics, described

it as "a very great step forward for the centre left parties in Europe" which marked them out as "champions of jobs and growth".

Rudolf Scharping, German defence minister and president of the Party of European Socialists, representing 20 left-of-centre parties from the European Union, Norway and Cyprus, underlined their commitment to the security of Europe's citizens in social policy and fighting crime. The manifesto declares that "each individual has more opportunity and more security if their community invests in modern services of high standards in education, health, transport and welfare".

It advocates "training, tax reform, the modernisation of welfare systems, the promotion of new enterprises and support for the non-market sector" to promote employment. The document shies away from strong commitments to traditional socialist policies. Thus, promoting employment "may include agreed reductions of working time negotiated between the social partners". A European growth strategy must embrace sustainable growth in both demand and investment. Economic reform and competitiveness require the effective protection of social rights.

The manifesto says "it is in the interests of all member states whether members of the single currency or not that the euro is a success". A sound euro will protect against currency speculation, allow for lower interest rates and contribute to a reformed and more stable world financial system. It calls for a "particular effort" to enable small and medium-sized enterprises and peripheral regions to take advantage of the EU's single market. "Taxation should not distort economic decisions with regard to labour, capital and services." Using language that Mr Blair could support, the manifesto backs "better policy co-ordination" in the EU "to prevent harmful tax com-

petition in the form of unfair tax breaks and hidden subsidies".

The PES parties "want an EU that both respects the identity of each of our countries and promotes a closer union between our peoples". They say a modern Europe needs a reformed common agricultural policy and reformed structural funds that are effectively targeted towards job creation.

The manifesto calls for the EU to find "new ways of financing investment such as public private partnership" and use of the European Investment Bank's lending facilities to overcome budgetary constraints. It urges increased use of

qualified majority voting "where desirable" in the EU's council of ministers as part of a reform of the EU's institutions before enlargement to include countries of eastern and central Europe.

Mr Blair said governments would examine each case for expanding majority voting on its merits and noted that Britain had benefited from the system when pushing through decisions for creating the single market. However, Pauline Green, the British leader of the socialist group in the European parliament, said unanimity should be kept in important areas such as changes to the EU treaties, enlargement of the EU and taxation.

## Hopes rise for Kosovo peace talks

By Guy Dinmore in Belgrade

The six-nation Contact Group on Kosovo, backed by Nato, expects Yugoslav President Slobodan Milosevic and the separatist Kosovo Liberation Army to give a positive response by tomorrow to a summons to peace talks this week in France.

Robin Cook, UK foreign secretary, delivered what amounted to an ultimatum to both sides on Saturday, as well as a draft peace plan that would give Kosovo substantial autonomy for an interim period of three years, with the possibility of deploying an international peacekeeping force.

Diplomats said military commanders of the fragmented KLA had indicated they would attend the talks, to start in Rambouillet, near Paris, on Saturday. Ibrahim Rugova, the elected leader of Kosovo's ethnic Albanian majority, who has been bitterly criticised by the KLA for his non-militant stance, told Mr Cook he would be at the negotiating table.

Mr Milosevic said peace talks should be held in Serbia but told Mr Cook he would seriously consider the proposal of the Contact Group, comprising Britain, France, Germany, Italy, Russia and the US. It is thought Mr Milosevic would send a senior representative.

"I told Mr Milosevic that the Contact Group proposal offered a way out of a conflict he cannot win," Mr Cook said yesterday. "I also told Kosovo Albanian leaders that the proposal would provide for a democratic, self-governing Kosovo free from fear of bloodshed."

Tony Blair, British prime

minister, and Al Gore, US vice-president, said Nato would back up the Contact Group's demands with force if the warring parties did not comply. Frustrated by stalling from both sides and mounting atrocities against civilians, the Contact Group has set a two-week deadline for conclusion of the talks. Mr Cook said only "20 per cent" of the peace proposal was up for discussion.

The 23-page draft, based on months of shuttle diplomacy by Chris Hill, US mediator, sets out a "high degree of self governance" for Kosovo with its own "president" and representation within federal Yugoslavia.

"Potentially, the KLA is the biggest problem," a western diplomat commented. Most KLA fighters are armed villagers with a strong loyalty to Mr Rugova, their elected "president", and would probably follow his line. But the rebel group's more radical leadership in exile may refuse to accept a deal.

Stephen Fidler adds from Washington: US media reports suggested over the weekend that support was growing within the US administration in favour of sending in US ground troops to a European-led peacekeeping force in Kosovo once a peace accord was fashioned. But Mr Gore told Britain's Sky television: "No decision on that has been made... We don't want to get to implementation before negotiation."

However, US senators speaking yesterday questioned how long they would be asked to remain in place.

Editorial comment, Page 13

### NEWS DIGEST

#### FISHING DISPUTE

#### Spain warns of crisis with UK over Gibraltar

Abel Matutes, Spain's foreign minister, has warned of a prolonged diplomatic crisis with the UK over Gibraltar because London had failed to guarantee a verbal agreement made in October, which allowed Spanish trawlers continued access to their traditional fishing grounds in the coastal waters of the British colony. Mr Matutes has also formally complained to Brussels listing alleged non-compliance by Gibraltar of EU directives.

Gibraltar's authorities, which recently began to implement a 1991 ordinance that forbids the use of nets within three miles, did not recognise the verbal agreement and infuriated Madrid by seizing a local fishing vessel last week. In an attempt to defuse tension, the UK has offered new talks on the dispute saying it hoped to restore the "harmony" that existed up to 1997 when trawlers fished unmolested in the vicinity of the colony but that it could not contravene Gibraltarian law.

Mr Matutes said the UK statement was "not what Spain was hoping and what I had asked for". The Spanish response, as in the past when differences over Gibraltar have flared, will be to apply strict frontier controls on the colony's border with Spain. Mr Matutes said there was now "a crisis, perhaps a long one". Tom Burns, Madrid

#### EU RESEARCH PROJECT

#### Israeli participation blocked

Several European Union countries, led by France and Britain, are blocking Israel's participation in a €15bn (\$17.4bn) scientific and research programme because of its failure to implement the Wye peace accord reached in October with the Palestinians.

Israel has responded by launching a diplomatic offensive in the run-up to next week's visit to the region by Joschka Fischer, Germany's foreign minister. Israel has also asked Germany, head of the EU presidency, to apply pressure on member states to allow Israel to join the programme. Israel claims that some EU countries are "politically motivated" and has sharply criticised any linkage between its participation in the programme and the peace process. Implementation of the Wye accord was frozen in December when Benjamin Netanyahu, Israeli prime minister, refused to carry out a second troop pullback from the West Bank, claiming the Palestinians had failed to co-operate on security.

Countries opposing Israel's membership in the EU programme base their action on the mandate issued last year by the EU Council of Ministers to start negotiations with Israel. Final approval for joining the programme, the mandate stated, must take into account the peace process. While the Commission supports Israel's entry, several council members object, as well as some European parliament deputies. Judy Dempsey, Jerusalem

#### POLISH ECONOMY

#### Call for weaker zloty

Poland needs a weaker zloty to bolster exports, which have suffered from the collapse of the Russian market, according to Jerzy Kropiwnicki, a minister and head of the government's Strategic Studies Unit.

Mr Kropiwnicki was speaking after the publication of trade figures for 11 months of last year, which show a \$19bn trade deficit for the period. The trade deficit in the same period in 1997 was \$14.7bn.

The call comes as the Solidarity-led government is seeking to head off demands from farmers who want to be compensated for a fall in prices last year. The health service is also threatening a general strike in support of higher wage claims. Christopher Bobinski, Warsaw

## Aznar rebrands party 'reformist centre'

By David White in Madrid

José María Aznar, Spanish prime minister, yesterday launched a bid to consolidate his Popular party's hold on power, with a reorganised and younger leadership team and a rebranding of its policies as "reformist centre".

He told 3,000 delegates at a PP congress in Madrid that the renovation undertaken in the top echelons should be carried out throughout the rest of the party.

His closing speech to the three-yearly congress, the last before the next general

election in about a year's time, coincided with an opinion poll in the newspaper La Vanguardia showing the PP leading the opposition Socialists by 42 per cent of the vote to 37 per cent. The five-point gap would leave the PP just short of an absolute parliamentary majority, the newspaper said.

Mr Aznar, seeking to set the tone for other European centre-right parties, which are mostly languishing in opposition, placed the emphasis on opportunities, individual rights and solidarity, setting education and employment as priorities

and promising a "profound reform" of public services.

After Mr Aznar's choice of Javier Arenas, previously labour minister, to take over running the party full-time as secretary-general, the congress approved further changes in the party's structure and its executive committee, promoting politicians in the 40-ish age bracket and increasing the number of women.

Among the few surprises was the inclusion in the committee of Josep Piqué, industry minister and government spokesman, who until the day before the con-

gress was not a party member. Mr Piqué, who earlier disclaimed any long-term political ambitions, is now expected to head the PP's general election effort in Barcelona.

Several "old guard" conservatives were relegated. However, Manuel Fraga, the PP's founder and honorary president, a veteran of the Franco regime, said the party had not so much moved to the centre as expanded its reach.

The congress displayed almost Soviet-style unanimity. The new list of party posts was acclaimed, with-

out challenge, by a vote of more than 99 per cent. Policy documents also received blanket approval, with a single dissenting vote registered in two out of five cases.

Despite the moderate pitch, Mr Aznar drew his biggest applause by defying Basque leaders on the possibility of constitutional changes. While reaffirming his desire for lasting peace in the Basque region following last September's ceasefire by the armed Eta organisation, he said there was "no alternative" to the current 1978 constitution, which laid

the basis of regionalisation but enshrined Spanish national unity.

His remarks, setting a limit to political bargaining, were a clear retort to Xabier Arzalluz, leader of the Basque Nationalist party (PNV), which heads the region's government and is one of the regional parties the PP has counted on for parliamentary support in Madrid. To Mr Arzalluz's contention that the Basques "do not fit" in the constitution, Mr Aznar said: "Peace fits in the constitution and is possible only in the framework of the constitution."

## Duisenberg cool on rate cuts

By Richard Adams

Further interest rates cuts within the euro-zone would only be justified by deflation and "persistently lower prices", Wim Duisenberg, president of the European Central Bank, said yesterday.

Mr Duisenberg told BBC television that interest rates within the single currency zone were already at historically low levels, and that further rate cuts would not help stimulate growth. "Further

lowering [of] interest rates would only be justified if there was a climate of persistently lower prices. And if there were signs of deflation, then the lowering of interest rates would be justified. But we are not there yet," he told the BBC's Money Programme.

Mr Duisenberg said he was "used to withstanding pressure" from politicians to cut interest rates, and described the period since single currency's launch as a learning process for the ECB.

There were no signs of a real recession within Europe yet.

"We foresee that prices will remain stable or at the level of increase that they currently are. So from that background, there's no reason to do anything with interest rates," he said.

Mr Duisenberg also said there were "huge advantages" for the UK to join the single currency. But the UK needed to demonstrate that sterling's exchange rate against the euro could be

stable - although this did not require membership of an exchange rate mechanism.

Large-scale sales of gold by Europe's central banks are not likely within the next 10 years, according to a senior member of the ECB. Sirriha Hamalainen, a member of the bank's executive council, said gold would eventually lose its reserve status, but significant sales by the European central banks would only come in the "very long term".

## Fazio warns over Italy's low growth

By James Biltz in Rome

Antonio Fazio, governor of the Bank of Italy, has warned that the economy faces an uncertain 12 months and that political stability and labour market flexibility are again essential to boost growth.

Amid continuing concern that Italy has the most sluggish growth rate in the euro-zone area, Mr Fazio used a keynote address at the weekend to warn that levels of consumer demand and industrial production again threatened "unsatisfactory results in 1999".

Addressing the annual Forum convention in Verona, Mr Fazio noted that the government's tough budgetary discipline to get into the single European currency had led to an average Italian economic growth rate of 1.2 per cent in each of the last three years, around half that of Germany and France.

But he said hopes of an improved performance this year were still uncertain. "According to preliminary data, the level of production in the month of January looks to be the same as it was 12 months ago."

At the same time, he warned that Italian industrialists could not rely on an

Financial Times Surveys

# Cuba

## Monday March 1

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No FT, no comment.

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THE AMERICAS

CLINTON IMPEACHMENT TRIAL MANAGERS HOPE FORMER WHITE HOUSE INTERN WILL BE ALLOWED TO GIVE EVIDENCE IN SENATE

# Lewinsky testimony will be given in private

By Stephen Fidler  
in Washington

The Senate impeachment trial of President Bill Clinton enters a new phase today as Monica Lewinsky, the former White House intern at the centre of charges against him, testifies behind closed doors.

As Lewinsky will be the first of three witnesses called by the Republican

"managers" of the trial from the House of Representatives to give depositions in a Washington hotel this week. The proceedings will be videotaped and the Senate will vote later on whether the tape should be shown in the Senate chamber or released to the public.

Vernon Jordan, Mr Clinton's friend, is due to give his deposition tomorrow and Sidney Blumenthal, a White

House aide, on Wednesday. George Gekas, one of the 13 House managers, said yesterday the aim of questioning would be to "follow up" on a number of issues, including whether Ms Lewinsky had been encouraged to provide false testimony or to hide gifts from the president. He told CNN television that the House managers had made a commitment not to question Ms Lewinsky

about salacious details of her relations with the president. The managers still hope that the Senate can be persuaded to allow witnesses to testify in the well of the Senate, though some have acknowledged that this will be a difficult task.

Some senators yesterday expressed strong doubts that there would be a two-thirds majority sufficient to impeach the president. Orrin

Hatch, Utah Republican, told Fox television that "barring some thunderbolt of new evidence that would change people's minds", there was no way that the requisite 67 votes could be mustered to remove him from office.

The White House said on Saturday that Mr Clinton had postponed a planned trip to central America in February until March, so that he would be in the country on

February 12, when, according to the current tentative plan of the Senate, the final vote in his impeachment trial would take place. He will visit Mexico as planned on February 15 and delay until March 8 his departure for central America.

In another development yesterday, the New York Times reported that Kenneth Starr, the independent counsel, was considering whether

to ask a grand jury for a criminal indictment of Mr Clinton before his term expires. It quoted an associate as saying Mr Starr believed a sitting president could be indicted - but had given no hint of whether he would seek an indictment.

Asa Hutchinson, another House manager, told CBS TV such a discussion was "not helpful at all" while the Senate trial was continuing.

## Mexico may face dollar peg pressure

By Henry Tricks in Mexico City

Pressure on Mexico to adopt a fixed exchange rate is set to mount in the run-up to next year's elections after a top presidential aspirant said he favoured an Argentina-style currency board.

Vicente Fox, a Mexican state governor who is the most likely presidential candidate for the pro-business National Action party (PAN), said he recently visited Argentina and Hong Kong to analyse their currency board systems, which fix the local currency to the dollar. "I have a very favourable position towards currency boards and I think they could be very interesting for Mexico," he said.

Last week, Carlos Gómez y Gómez, head of the Mexican Bankers Association, threw the weight of the financial sector behind a fixed exchange rate and eventual monetary union with the US. He said a move that way would help avert crisis at the end of President Ernesto Zedillo's term in 2000.

The government, however, insists it has no plans yet to abandon the floating peso, and officials fear the debate itself could promote exchange rate instability if speculators start to drive the peso lower against the dollar, anticipating it would be fixed at a lower level.

One official said there was "close to zero chance" of a currency board being proposed by Mr Zedillo, though he left open the possibility in the event of severe market turmoil in the run-up to the elections next year. Speaking at the World Economic Forum, José Ángel Gurría, finance minister, was quoted as saying dollarisation was not on the agenda "in the foreseeable future".

The government's main argument against a fixed currency is that it reduces the tools available to fight external shocks. It would also be likely to stir strong resistance in Congress if it was perceived as threatening national sovereignty.

## A new Hollywood abecedar: G is for good takings, R is for rotten

Family films make eight times more profit than ones with exploding heads, advocacy group says. Christopher Parkes reports

R - the Hollywood rating code for films depicting sex, violence and other content unsuitable for family viewing, serves a double purpose as a sign of a rotten rate of return on investment, according to a study of 10 years' worth of studio output.

G signifies good - as in clean fun and gross earnings - says the Dove Foundation, an advocacy group for more wholesome entertainment, which claims the average film with a "general" rating generates eight times more gross profit than an R-rated shocker.

In terms of return on investment, family fare is 78 per cent more rewarding than blood and guts.

Coming shortly after Walt Disney announced plans to re-focus its efforts on family films, the report may strike a chord among studios that are struggling to find a formula for consistent box office success.

Dove, using data commissioned from Paul Kagan Associates, a respected research firm, claims its findings "completely debunk" film-makers' claims that films stuffed with "naked bodies, exploding heads and filthy language" make most money.

Although the findings on profitability are based on estimates of numbers stu-

dios never reveal, but are commonly used as rule-of-thumb measures of success, the results seem to suggest scarcity value is a financial factor.

Of the 2,380 films given a wide US release (on 800 or more screens) in the decade to the end of 1997, only 75 were given a G rating. Walt Disney's main label, Buena Vista, provided 23 of those, with Warner Bros a distant second with 13.

Sony, which came close to collapse in the period under scrutiny, was the most prolific studio, with a total of 271 releases; it put out the most R-rated pictures (137) and made only four with the G rating.

Since 1988, Dove says, 80 per cent of all releases have been rated R.

Dick Rolfe, the foundation's chief executive, has sent copies of the report to studio executives and mutual fund and pension fund managers, in an effort to persuade both groups to review their policies "for profit's sake".

Average gross profit from a G-rated film in the review period was \$64m, the study says, with R movies yielding only \$11m apiece and PG products about \$38m. Gross profit is defined as the studios' estimated revenues from cinemas, home video,



D-Day landings recreated in 'Saving Private Ryan': R-rated but suitable for families, says the Dove Foundation

and television rights minus production and promotion costs.

According to the data, G and PG films enjoyed a come-back between 1993 and 1996, as the number of R-rated releases fell to a low of 99 in 1994, but the tide turned quickly, and the tally of films unsuitable for fam-

ily audiences hit a record 169 in 1997.

The change in the mix reflects the studios' pursuit of young males, the most persistent cinema-goers, and their response to the early adoption of adult tastes by children which has lately afflicted toy industry sales.

Effects-heavy action films, commonly rated PG-13 or PG, are widely accepted in the marketplace as family viewing.

The Dove Foundation, supported by entertainment names such as Steve Allen and Michael Medved, securities executives and the former head coach of the Dallas Cowboys, acknowledges this

shift with a less rigid stance than some advocacy groups. It has given its "family approved" seal to several serious, R-rated films, including Steven Spielberg's *Schindler's List* and *Saving Private Ryan*.

"Moviegoers are not crying out for endless sequels of *Rugrats* and *Babe*," says Mr

Rolfe, who rates the newly-released *Star Trek: Insurrection* (PG) as acceptable family viewing.

In his opinion Frank Capra's *It's a Wonderful Life* and Alfred Hitchcock's *North by Northwest* bear the mark of genius. But they don't make them like that any more.

## Europeans burn fingers on films

By Christopher Parkes  
in Los Angeles

European insurance companies and brokers face heavy losses from a fumbled three-year foray into financing independent film, according to Hollywood cinema and insurance industry executives. The cost to the mainly British insurers involved in the gamble could reach \$100m this year, the executives say.

More pain will follow as claims mount in a protracted shake-out expected to stem the flow of funding to unknowns hoping to produce hits such as *The Full Monty*.

"The chickens are coming home to roost," said Lorey Hoffman, a senior vice-president with Aon, the US insurance services group. "They are not the first people who have come to this town and got their fingers burnt."

CE Heath, the British independent insurance broker, Lloyd's syndicates and some French insurers have been involved in the maze of new film financing techniques which has evolved in the past few years with the revival of cinema's popularity.

Their expected losses, which some say could continue for another five years as multiple-film deals wind down, originate in their heavy involvement since 1995 in "gap finance". This is a way, first developed by banks, for cash-strapped film makers to obtain loans.

At the outset, earlier this decade, banks readily gave loans to producers or directors who came to them with distribution contracts or other guarantees covering about 90 per cent of their budgets. The loans, protected by insurance, would

be enough to cover the 10 per cent "gap".

In the interim, competition between banks and insurers looking for lucrative "special risk" business has widened the gap further.

In the worst cases, insurers have covered gaps of up to 80 per cent of a film's budget, according to Mr Hoffman. Although premiums were expensive, ranging up to 14 per cent of the sums insured, the policies proved to be "inadequately priced", he said.

Mr Hoffman, who had earlier told a UCLA Law School conference to expect a sharp contraction in the number of independent films made, said the insurers' main mistake was to ignore the laws of supply and demand in the market for movies that mostly cost \$5m or less to make.

Under their influence, he

said, the number of films produced annually outside the main studio circuit had grown as much as 25 per cent since 1995.

Despite the growing popularity of the cinema and the opening of new markets, there was limited screen space for low-budget films, especially in large markets such as the US. As a result, only 5-10 per cent of independent productions gained wide distribution.

Peter Hoffman, president of Seven Arts and a long-time champion of independent film, told the conference there was no need to feel sorry for insurers. "They are swimming in cash and need to take risks to look more like insurance companies than investment companies," he said.

"But it won't look good for any of us if it all goes wrong."

CANADIAN POLITICS GOVERNMENT FLUSH WITH CASH AND NO PROMISES TO KEEP

## Ottawa's Liberals look forward to easy ride

By Edward Alden in Toronto

Jean Chrétien, the Canadian prime minister who celebrated his 55th birthday last month, recently joked that he would retire when a certain portly reporter in Ottawa's press gallery could beat him in a race up the House of Commons' steps. The reporter declined.

The quip nicely illustrates the position of Mr Chrétien's Liberal party, midway through its second term of office: ageing a bit, but still cocky and with no serious challengers in sight.

As Canada's parliament recovers today, life could scarcely look better for a Liberal in Ottawa.

The most recent survey by Angus Reid, the pollster, shows the Liberals enjoy the support of 45 per cent of Canadian voters. While this is not an overwhelming endorsement, the nearest opposition parties, Reform and Progressive Conservative, each capture a mere 15 per cent support.

The government has built a fiscal surplus of between \$7.5bn and \$10bn (\$13.5bn) over the last

year, and the budget to be handed down this month will feature new spending on health care and some tax reductions.

The most remarkable thing about Mr Chrétien's Liberals has been their ability to transform the relationship between Canadians and their government, while generating little or no sustained opposition.

Since coming to office in 1993, the Chrétien government, which inherited a \$42bn annual budget deficit, has cut public spending to its lowest real level since the end of the second world war. It has also increased tax revenues faster than any other industrialised country, mostly through such invisible means as permitting only partial indexation of personal taxes, which has pushed many Canadians into higher tax brackets.

While such initiatives could have been expected to draw intense opposition, they have been supported by most Canadians as the unpleasant, but necessary, remedies for years of budget deficits that had pushed Canada's accumulated debt

to almost \$360bn. The opposition parties, unable to move public opinion against the Liberals' economic programme, have been reduced to clipping away at the government over a series of minor scandals that have quickly been forgotten.

Reform, the official opposition, is currently preoccupied with convincing the Conservatives to unite into a single party to fight the next election. But the "United Alternative" initiative is likely to fail because of ideological differences between old Tory Conservatives and the more radical right Reformers.

With a floundering opposition, the rest of the Liberals' second term looks set to be easier still. The government is flush with cash and has no political promises to keep. "Nobody's going to lambaste them for not fulfilling their obligations because they don't really have any," says Alan Alexandroff of LECC, a Toronto consulting firm.

Paul Martin, finance minister, wants this year's budget to be remembered as the



Chrétien: joking

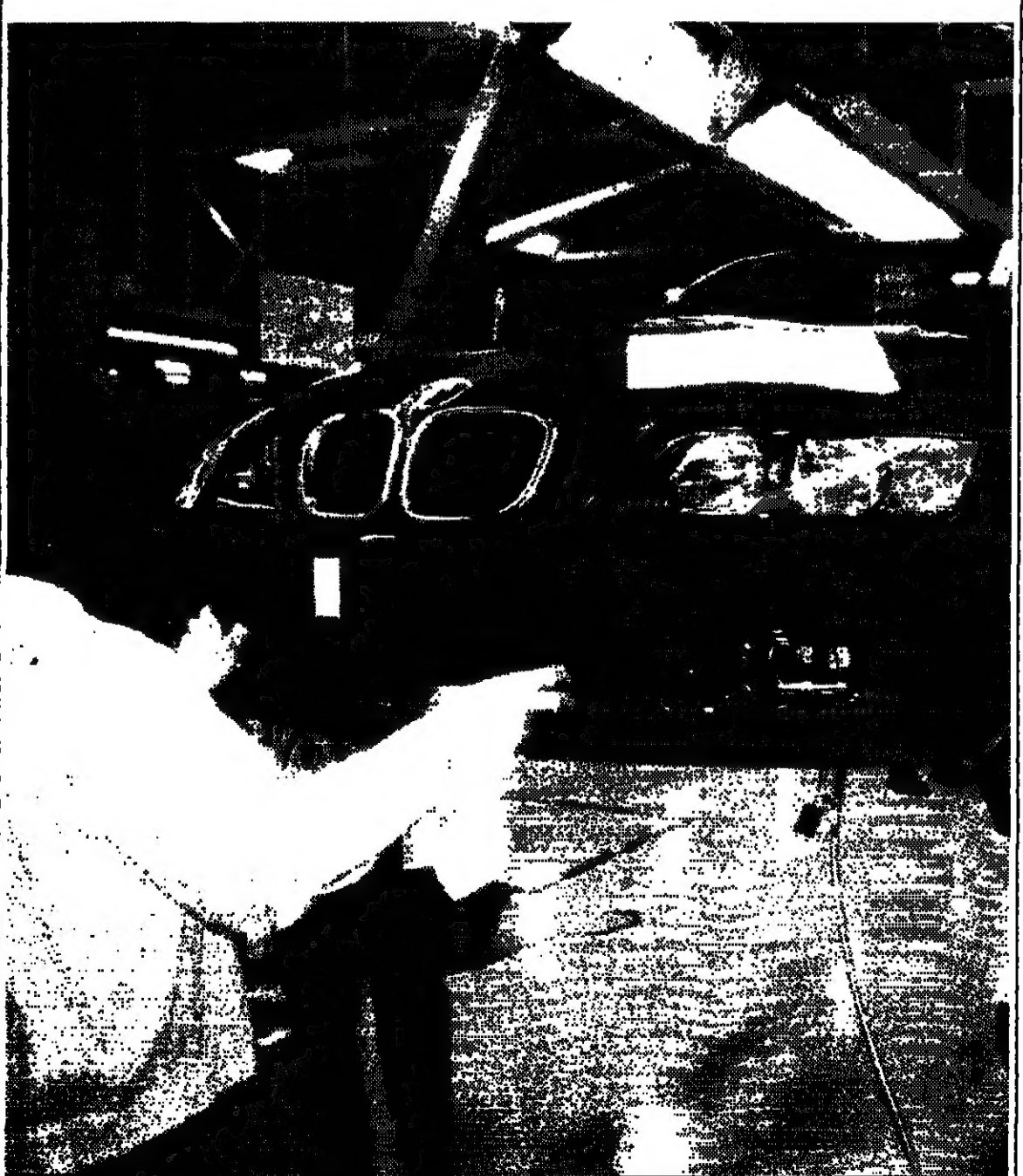
"health care budget". After five years of cutting annual health spending, he is set to restore \$1bn-\$3.5bn in funding, provided the provinces agree to spend the money on critical items such as reducing waiting lists for surgery.

If the Canadian economy remains healthy in 1999, most observers expect the 2000 budget will be the "tax budget", with the Liberals finally making substantial cuts to the country's high personal income taxes.

With at least two good news budgets behind them, the Liberals would be well placed to call an election any time they chose. At this point, the outcome does not look much in doubt.

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## INTERNATIONAL

# South Korea warned on complacency

By Peter Montagnon, Asia Editor, in Washington

South Korea risks becoming complacent about the degree to which it has overcome last year's economic crisis and it is still too early to declare victory in the battle to achieve a sustainable recovery, a senior International Monetary Fund official warned at the weekend.

The crucial restructuring of Korea's large corporations has only just begun, said Hubert Weiss, the IMF's Asia-Pacific Director in an interview. "Korea still has a difficult period ahead."

His remarks amount to a dash of cold water on financial market euphoria that made Seoul's stock market one of the best-performing in the world last year and led credit rating agencies to begin restoring investment grade status to its foreign debt.

But they echo the concerns of private sector economists in Seoul who have begun to worry that the improved mood may cause the government to drag its feet on the most difficult decisions in the politically sensitive area of corporate reform.

The restructuring of the corporate sector must go deeper than the initial deals between large chaebol conglomerates, Mr Weiss said. They have paralysed on specialisations in leading sectors such as cars and electronics to give each company greater focus but not yet agreed to close down the surplus capacity that has plagued the Korean economy.

These corporations are heavily indebted to banks, which, under the new financial regulatory environment, have become much more powerful in their ability to insist on stronger balance sheets. In the process of reducing their debts, the chaebol should eliminate

duplication and close capacity in a process that could still take a couple of years, he said.

However, the debt workouts will also prove costly for the banking sector, which will require yet more injections of capital, he said. Only when the process is completed will Korea be able to boast a "self-sustaining" recovery.

Unemployment in Korea, a sensitive political indicator, has stabilised at around 7 per cent, a "high but by no means catastrophic" level, he added. It should not rise further but would remain high for some time.

While Asia has made great strides towards dealing with its problems, Mr Weiss said he remained concerned that regional recovery could be derailed by a fresh crisis in Indonesia or by continued recession in Japan.

"The external position [in Indonesia] is obviously vulnerable especially in the coming [pre-election] period because we couldn't expect a large reflow of private money of the sort that is taking place in Korea," he said. "Therefore Bank Indonesia will have to continue its policy of keeping monetary policy firm."

Mr Weiss dismissed criticism in financial markets that the country's proposed bank restructuring was too costly at a price of some 30 per cent of gross domestic product, and that it allowed for the survival of too many banks. "Bank restructuring is expensive. Everybody knows that," he said. But the immediate cost to the government was the interest on bonds issued to recapitalize the system.

One Asian country, which had come through the crisis well but received little credit, was the Philippines, he said. It was the only country in south-east Asia to show positive growth last year.

# New web music search facility unveiled

By Alice Rawsthorn

Lycos, one of the most popular internet search engines, will today unveil plans to launch MP3 Search, a specialist search facility designed to make it easier for consumers to find MP3 files, the compressed sound files on which music is stored on the internet.

Downloading songs from the internet of MP3 files is becoming increasingly popular, particularly among teenagers, as an alternative to buying music on compact disc, or listening to it on the radio.

Once the files are downloaded on to a computer hard disk, they can be transferred on to portable players, or e-mailed to friends' computers.

Lycos says MP3 files are among the five most requested internet services. Scores of sites specialise in



Launch could cause controversy in the music industry as most MP3 files contain unauthorised copies of copyrighted music by artists such as Robbie Williams (left) and Lauryn Hill

finding them, but MP3 Search will be linked to more than 500,000 files which, according to Lycos, is ten times more than its closest competitor.

As the last independently-

owned large search engine, Lycos is keen to make its product more attractive than those of its rivals, such as AOL and Yahoo!

However, the launch could cause controversy in the

music industry as the vast majority of MP3 files contain unauthorised copies of copyrighted music by established acts, such as Lauryn Hill and Robbie Williams.

These pirate files have

been posted on the internet without the consent of the artist, their record company or music publisher.

Some MP3 files contain legal copies of non-copyrighted material by artists without recording contracts, mostly obscure, young musicians, or veterans who have been dropped by their record labels.

A growing number of artists established are expected to handle their own distribution over the internet in future, but so far Public Enemy, the critically-acclaimed US rap band, is the only one to do so.

At present, by far the most popular MP3 files are pirated ones containing copyrighted music by chart-topping acts. Lycos has "no idea" whether or not the files on MP3 Search contain copyrighted material, nor do we have the resources to find out," according to

Brian Kalinowski, product manager.

Record companies could argue that, if MP3 Search, developed jointly with Fast & Search Transfer, a Norwegian internet services company, helps the public to access pirated versions of music on MP3 files, it will, albeit unintentionally, be fostering piracy.

Last autumn, the Recording Industry Association of America (RIAA) marshalled a similar argument when it took legal action to stop Diamond Multimedia, a US electronics company, from distributing the Rio, a portable MP3 player.

The RIAA lost that case, but has pledged to take legal action again to prevent the spread of MP3 piracy. It said it would reserve judgment on MP3 Search until Lycos makes the announcement today, and it has examined the product.

# US and Europe fuel global PC demand

By Paul Taylor

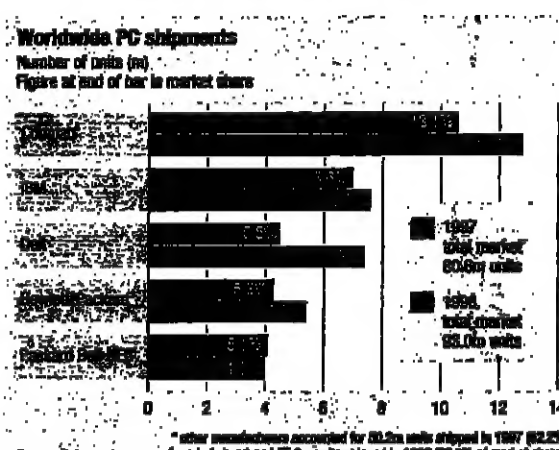
Strong growth of 15 per cent in the worldwide personal computer market in 1998 was led by demand in the US and Europe and fuelled by the internet, according to preliminary figures from Dataquest, the market research firm.

The US and European PC markets accounted for nearly 65 per cent of PC shipments in 1998.

"Affordability and growing relevance of internet content is sustaining double-digit PC growth in the US," said Bill Schaub, vice-president for Dataquest's Personal Computing and Peripherals group.

"Dataquest's latest survey suggests that as many as 37 per cent of US households are now connected to the internet."

Compaq Computer, the second largest computer group in the world after International Business Machines, continued to lead the worldwide PC industry



with nearly 14 per cent market share in 1998.

IBM held on to the number two position but Dell Computer, the direct sales pioneer, continued to close the gap between itself and the two market leaders.

Dell's worldwide sales grew by 65 per cent last year.

Hewlett-Packard, focusing on margins, finished the

# Baghdad attacks move to review UN ties

By Randa Khalaf in London

US and British aircraft yesterday attacked targets in Iraq's southern and northern no-fly zones as Baghdad criticised a United Nations Security Council decision to set up three panels to review important aspects of UN-Iraq relations.

The US military said US and British aircraft attacked an Iraqi communications station in Tallil, some 270km south-east of Baghdad, and a radio relay station in Al Amarah, about 190km south-east of the capital. The attacks were provoked after an Iraqi MIG29 flew into the zone, set up to exclude Iraqi aircraft and protect the Shia population.

The US military, which has been given expanded rules of engagement, said the attack would impair Iraq's ability to send its aircraft into the no-fly zones.

The US Air Force at the Incirlik base in Turkey said yesterday that US aircraft fired a missile at a radar site north of the city of Mosul in the northern no-fly zone. In a previous incident on Saturday, US aircraft struck six Iraqi air defence sites around Mosul.

Yesterday's clashes over the no-fly zones came as Baghdad criticised the UN Security Council's weekend decision to organise three panels to assess disarmament work, the conditions of Iraqis under the eight-year UN sanctions and the accounting of missing Kuwaitis taken hostage during Iraq's 1990 invasion of its neighbour.

The UN decision was the first concrete step taken by the Security Council since last December's four-day US and British air raids on Iraq. "The work of the three panels... will take months and will mean nothing but procrastination and maintaining the unjust embargo on Iraq," said an Iraqi spokesman after a top-level meeting chaired by President Saddam Hussein.

Iraq complained that it had not been consulted on the move. "Baghdad has not been consulted on setting up these panels, therefore such a measure does not mean anything to us," the spokesman added. The Security Council has been deeply divided over Iraqi policy since the US and British bombings. While France, Russia and China want a lifting of the oil embargo, the US and UK are opposed to such a move but agree that measures must be taken to alleviate the suffering of the Iraqi people. The decision to set up three panels may do nothing to bridge these differences, but it will buy members of the Security Council some time and will clarify the effects of sanctions and the remaining work needed to be done on disarmament.

A main point of contention in Security Council discussions in recent weeks has been the fate of Unscow, the UN special commission charged with Iraqi disarmament. Iraq has said Unscow would not be allowed back into the country unless sanctions were lifted. Russia, which backs the Iraqi position that Unscow is biased, wants to see the commission abolished, while the US is pushing for it to continue playing a role in Iraq.

## NEWS DIGEST

### CHARGES AGAINST EX-DEPUTY PM

### Malaysian judge refuses to dismiss Anwar case

A Malaysian high court judge has declined to dismiss charges against Anwar Ibrahim, the sacked deputy prime minister. Judge Augustine Paul ruled that Mr Anwar must defend himself against prosecution charges that, as deputy prime minister, he abused his powers to cover up alleged sexual misdeeds.

"After having considered the evidence relevant to the charges, I find that the prosecution has made up a case against the accused," Mr Paul said.

Defence lawyers said Mr Anwar would take the stand to defend himself and they would move now to interview Mahathir Mohamed, prime minister, as a possible witness. Sheila McNulty, Kuala Lumpur

### HONG KONG AIRPORT

### Legal advice sought on action

Hong Kong's Airport Authority said yesterday that it was seeking legal advice on possible action against airport officials who have been reprimanded in inquiries into the airport's chaotic opening in July last year.

The comments followed the publication of the third of the inquiries into the airport's inauguration during which flights were delayed, luggage was misrouted and airport toilets ran out of water.

The most recent report was released at the weekend by Hong Kong's ombudsman, Andrew So, who broadly sounded the same themes as the earlier reports, blaming poor communication between the Airport Authority's senior management and the government. Hong Kong's main air cargo operator, Hong Kong Air Cargo Terminals Limited, was also criticised for being over-confident about its ability to start on the opening date of July 6. The airport authority yesterday said it would set up a working group to consider the findings. Rahul Jacob, Hong Kong

### US TIES WITH INDIA

### Hopes for 'new relationship'

Senior Indian and US officials yesterday spoke positively of "laying the foundation for a new relationship" after an eighth round of bilateral talks, initially prompted by US concern over India's nuclear tests in May. But while both Strobe Talbott, US deputy secretary of state, and Jaswant Singh, India's foreign minister, expressed "satisfaction" over the three-day talks in a joint statement, no specific steps were announced on nuclear non-proliferation issues, including the US desire to see India eventually accede to the Comprehensive Test Ban Treaty (CTBT).

Instead, and underlining an increasingly positive spirit to the talks, the two sides stressed that expert teams would meet again in March, with top-level talks resuming later this year.

After the discussions, which embrace the CTBT, Indian nuclear export controls, fissile material production and India's post-nuclear "defence posture", both sides noted they had spilled into an unscheduled third day - "the length of time devoted to these talks is unprecedented in US-Indian relations". Mark Nicholson, New Delhi

### PRIVATE ENTERPRISE IN CHINA

### Move to improve standing

China is set to elevate the official standing of private enterprise and the "rule of law" at an annual parliament session in March, raising the possibility of more favourable treatment for a private sector that is dynamic and yet still hampered by government ambivalence.

The central committee of the Communist party has drafted amendments to the constitution which say that the private and non-state sectors are an "important component" of the socialist economy under state ownership, the official Xinhua news agency said. The current constitution describes private enterprise as merely "complementing" the socialist economy under state ownership.

Subtle semantic shifts have often presaged great changes. The amendment, which is expected to be adopted by the National People's Congress, may help to redress the preference accorded to the ailing and inefficient state sector. James Kynge, Beijing

### PAKISTAN'S PARIS CLUB LOAN

### \$3.3bn debt to be rescheduled

The Paris Club of official creditors has agreed to reschedule about \$3.3bn of Pakistan's foreign debt, giving it a breathing space to reform its battered economy, senior government officials said at the weekend. Ishaq Dar, the finance minister, led a delegation to Paris last week for formal discussions with western creditors. The Associated Press of Pakistan (APP), the official news agency, quoted Mr Dar saying that the Paris Club had renegotiated payments on "the most concessional terms ever given to a country".

Finance ministry officials said that the rescheduled debt was in addition to new loans of about \$4bn committed by western donors to Pakistan. They said the Paris Club had given an 18-20 year rescheduling period on repayments of various loans owed by the country, which includes a grace period of more than four years.

Nawaz Sharif, the Pakistani prime minister, ordered at the weekend creation of military courts across the country to combat lawlessness. Farhan Bokhari, Islamabad

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## BRITAIN

## Tax loophole closed after BP and Amoco deal

By Jim Kelly,  
Accountancy Correspondent

British Petroleum and Amoco of the US escaped paying more than \$800m (in duty on their recent merger thanks to a loophole in the UK tax laws belatedly closed by the government at the weekend to stop a rush of similar deals.

Patricia Hewitt, economic secretary to the Treasury, changed the law from mid-night on Friday - promising

legislation in the forthcoming Budget - to protect projected 1998-99 revenues of £2.4bn (\$3.96bn) accrued from stamp duty reserve tax.

It looks likely that two other cross-border deals - the merger of Astra and Zeneca and the purchase of AirTouch Communications of the US by Vodafone, the UK mobile phone company - have also beaten the change in the law, with the result that the government will lose more than £2bn.

The loophole allows companies to avoid stamp duty reserve tax - levied at 1.5 per cent - on bearer shares denominated in a foreign currency and held in a depository or clearance system.

The exemption has existed since 1989, but was not designed for such transactions. Inland Revenue officials said it had recently been used in a high-profile deal and this had resulted in it becoming popular.

The Revenue said the City had expected the loophole to be blocked in next month's Budget and action had been taken sooner "to provide certainty".

BP and Amoco's £30.3bn merger techniques targeted by the Revenue in its statement on Friday. The change in the law cannot be retrospective so their \$800m saving is safe. Senior executives involved in the \$35bn merger of Zeneca and Astra, the UK

and Swedish pharmaceuticals groups, said that, although their deal was not complete, a concession in the Revenue statement appeared to allow them to go ahead as planned as they were well advanced.

"Our understanding is that this will not affect our merger," said a spokesman. "If things change, the company will bear the liability, not the shareholders." It is understood the tax involved is up to \$500m.

Senior executives at Vodafone, the UK-based mobile phone group in a deal to purchase AirTouch for \$62bn, are understood to be confident that they have also beaten the change in the law. It is understood \$800m in tax would have been due.

"It looks like they got under the wire. This is money which they can use in developing the business," said one executive close to the Vodafone deal.

The success of the compa-

nies in avoiding tax may strengthen support for measures proposed by Gordon Brown, chancellor of the Exchequer, to enact a "catch-all" anti-avoidance law allowing such schemes to be stopped more quickly.

The Revenue's move may also prompt calls for the abolition of the tax entirely as it is not levied by the US or several European countries. "This will make it more difficult to do deals like this," said one executive involved.

## MEP to quit after find by Customs

By George Parker,  
Political Correspondent

Tom Spencer, a member of the European parliament for the opposition Conservative party, who was caught with drugs and gay pornography at Heathrow airport near London, yesterday announced he would not seek re-election in June.

Mr Spencer faced questions from the new Conservative ethics committee later this week, and would almost certainly have been barred from standing in any case.

The MEP yesterday toured broadcast studios in an attempt to explain his "sheer stupidity" and to try to save his political career.

But senior Conservatives made it plain they did not look kindly on an MEP who had brought further problems to the party at the end of a particularly fraught week.

Mr Spencer, who says he is gay, was fined £500 (\$825) in an out-of-court settlement by the Department of Customs & Excise when he was found with pornographic magazines, a video and two cannabis cigarettes.

He denied being a cannabis user, explaining in a BBC interview: "I'd accepted some in Amsterdam in a social situation and forgot about it. I'm not claiming to have been wise - I have been extremely stupid and thoughtless in coming home and not throwing the stuff away."

Party officials said they wanted to draw a line under the affair at the earliest opportunity, and said Mr Spencer's case would be referred to the ethics committee.

However, few believed Mr Spencer could survive as a candidate in a party that, in spite of attempts by William Hague, its leader, to make it more tolerant - still takes a dim view of drugs and pornography.

Mr Spencer will remain an MEP until the June elections and remain as a member of the party afterwards.

## YEAR 2000 FESTIVITIES WILL LIFT OUTPUT

## Millennium boost forecast for economy

By Christopher Adams  
and Alan Beattie in London

A mix of unprecedented new year festivity and feverish efforts by business to solve the millennium computer bomb will give the faltering UK economy an unexpected boost this year.

But the lift is likely to be short-lived and may leave a throbbing hangover.

Lavish spending on millennium parties, winter holidays and government-backed projects is likely to help lift economic output in 1999, according to the National Institute of Economic and Social Research. Household consumption could increase sharply in the fourth quarter, giving retailers and the consumer services industry a welcome boost.

The institute said that overall, the effect could be big enough to add a quarter of a percentage point to real gross domestic product for the year as a whole - equivalent to about £2bn (\$3.2bn) in money terms.

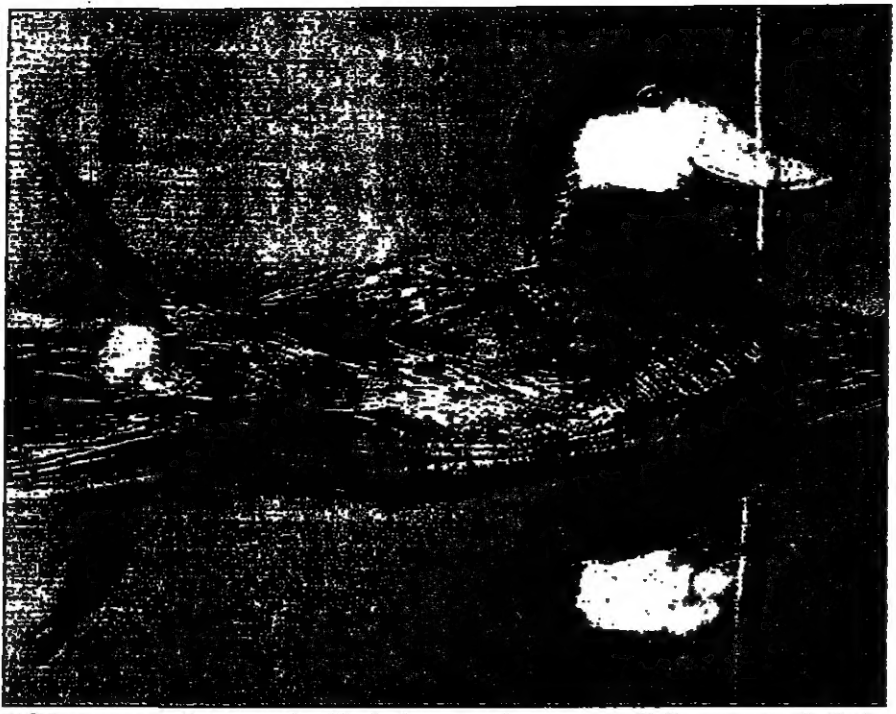
Consensus forecasts suggest the economy is set to achieve 0.6 per cent growth this year, a sharp slowdown from 1998. But evidence is growing that the millennium could distort spending

and investment patterns. Estate agents have reported increased activity in the lettings market for the year end. Consumers are expected to spend less on holidays in the summer, preferring to save up for New Year's eve. Brewers and champagne producers will also benefit. There was a similar, if more muted, effect from last year's World Cup soccer competition, which prompted a switch towards buying new televisions.

Efforts by companies to defuse the millennium computer bomb, which stems from the inability of some programs to move on to 2000, is also expected to lift output. Estimates of how much will be spent to solve the problem range from £25bn to £50bn and investment will be spread over several years.

The Office for National Statistics suggests part of a surge in imported electronic goods apparent in the latest official trade data may be due to spending on defusing the 2000 bomb.

The effect of the bomb itself, when it strikes, is extremely difficult to predict. But the economic impact could be both bigger and more unwelcome after the turn of the century.



Holiday romance: the rampant ruddy duck engages in amorous activity every year in Spain

## Lust-crazed duck comes under fire

By George Parker in London

The government will today declare war on the lust-crazed ruddy duck, which is wreaking ecological havoc across Europe from its base in Britain.

Michael Meacher, environment minister, will issue orders to marksmen to start hunting down the fowl, which emits a distinctive belch rather than the traditional quack.

Its anti-social behaviour does not stop there. Like some of its British human counterparts, the ruddy duck heads off to Spain once a year to engage in an unwelcome orgy of sex and destruction.

No sooner has it arrived than the rampant bird engages in amorous activity with the endangered white-headed duck, which finds its British counterpart unaccountably attractive.

The offspring of this ornithological holiday romance is a fertile hybrid. Numbers of pure white-headed ducks in Spain are once again under threat. To make matters worse, the ruddy duck is becoming more exotic in its travel tastes and now visits 13 countries. Ministers fear it will soon cause mayhem in key breeding sites in Turkey if no action is taken.

Continental European countries have been pressing Britain to act for several years.

## BUDGET SUBMISSION COMPANIES CALL FOR £1bn FISCAL PACKAGE TO HELP ENTREPRENEURS

## Minister urged to cut capital gains tax

By Christopher Adams  
and Richard Adams

British business is to urge Gordon Brown, the chancellor, to overhaul the capital gains tax system as part of a £1bn (\$1.65bn) fiscal package to help entrepreneurs.

The British Chambers of Commerce told Mr Brown in its Budget submission, published today, to cut the capital gains tax rate for individuals from 40 to 30 per cent.

It says the government could do more to help small companies. A lower CGT rate, it argues, would encourage wealthy "business angels" to invest in smaller enterprises by making it less attractive to avoid tax by diverting funds offshore.

The BCC, representing more than 100,000 companies, is also concerned the new taper for capital gains - under which assets held for 10 years are taxed at an

effective rate of 24 per cent - is complex and too long.

Instead, it says, no CGT should be charged on business investments after five years. Investors should be able to shift holdings into other companies and still qualify for the taper.

The BCC says the tax yields about £1.4bn in annual revenue for the government, and says the proposals would not be costly. Taken together with its

other recommendations, the government would lose £1bn. The BCC submission also urges a 100 per cent tax break for the first £250,000 of annual capital spending by small companies.

The BCC's proposals come as many small and medium manufacturing companies are planning to reduce investment in plant and machinery and to continue cutting jobs, according to a new CBI survey.

But there was also a "glimmer of hope", the CBI said. Its survey of 770 manufacturers with 500 employees or less found the recent drop in activity might be about to ease. Companies have become less gloomy about their prospects.

The CBI repeated its call for a further interest rate cut the Bank of England holds its monthly monetary policy committee meeting on Wednesday and Thursday.

FINANCIAL TIMES  
Conferences

## NEW MEDIA AND BROADCASTING

The 17th Annual FT World New Media and Broadcasting Conference

3 &amp; 4 March 1999, London

The 17th Annual FT World New Media and Broadcasting Conference will discuss the continuing development of the digital market from both a European and US perspective, six months after the launch of the UK satellite and terrestrial digital platforms.

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Société Européenne des Satellites

Mr Miles Pitt  
President  
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Mr Peter Rogers  
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## PRE-QUALIFICATION CONTEST

EVALUATION STUDIES OF ENTERPRISES  
IN THE PUBLIC SECTOR AND  
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It is open, for a period of 45 days, the pre-qualification contest of entities willing to perform evaluation studies of enterprises in the public sector, and to give technical assistance in the privatization operations to be held in Portugal.

The provisions which regulate the contest were approved by the regulation number 664/99 (2nd Series), of the Chancellor of the Exchequer, of 98.12.29, published in the official newspaper, 11 Series, number 12, of 99.01.15, pages 542 to 544.

The people concerned must present, according to the situation, the applications or the declarations mentioned in item 2.1 of the aforesaid regulation, until 17H of the 99.03.01, at the "Inspeção-Geral de Finanças" - Rua Angelina Vidal, 41. 1199-005 Lisboa Codex". The applications/declarations can be sent by mail, within the terms stated in the respective provisions.

Any question concerning these procedures must be presented to the Commission, by writing, at the address above-mentioned, or by the Fax number 351/1/813 87 42, till the 99.02.15.





## INSIDE TRACK

PROFILE RUDI BOGNI, CHIEF EXECUTIVE UBS PRIVATE BANKING

## Private banker with unorthodox ambitions

UBS is counting on one division to earn half its profits by 2002. William Hall talks to the man in charge, with \$10bn to spend on acquisitions

Rudi Bogni, the Italian-born boss of UBS Private Banking, feels on top of the world. He is in charge of the jewel in the UBS crown. He has just been promised \$10bn for acquisitions. And following a big corporate review announced at UBS last week, private banking is set to grow in importance at the expense of the riskier investment banking side of the business. Investors were left with no doubt that Mr Bogni is the second most powerful banker at UBS after Marcel Ospel, the chief executive. UBS's enthusiasm for private banking is understandable. It is twice as big as Credit Suisse, its nearest Swiss competitor, and Switzerland is by far the biggest centre for offshore private banking, which handles the financial requirements of wealthy individuals who typically have more than \$5m (£3.5m) to invest.

Private banking profits are far less volatile than those in investment banking, and because the fees charged for managing private portfolio accounts are so much higher, the margins in private banking can be seven times greater than in institutional asset management, where big volumes command lower fees.

Indeed, some analysts have questioned whether UBS ought not to jettison the rest of its businesses to concentrate on private banking, where it is the undisputed world leader.

Last year's third-quarter loss and the resignation of four top executives including Mathias Caballavetta, UBS chairman, underscored serious weaknesses in the bank's risk management procedures. The strategic review announced last week said UBS would concentrate on "high-quality asset-gathering businesses in Europe".

The bank has cut by a third its profit targets for investment banking and institutional fund management, the only two other areas where it has global ambitions, and it plans an "aggressive expansion of domestic private banking in European core markets".

UBS insists the changes are only "fine-tuning". The figures tell a different story. The bank has earmarked Sfr500m for investment banking acquisitions, compared with Sfr50m to Sfr70m for acquisitions in Mr Bogni's private banking empire.

UBS is counting on its private banking division to earn half the group's profits by 2002. It wants to add another Sfr500m to the Sfr700bn of private bank assets it has under management during the next four years.

The challenges facing Mr Bogni should not be underestimated. For a start, his background is in investment banking, rather than private banking, a more recent career move. Second, he believes in economies of scale in private

banking, an unorthodox view in a niche that has traditionally thrived on personal relationships between the banker and his clients. In addition, UBS's strength is in offshore banking - investing for non-residents - rather than onshore private banking, which is bigger and growing more rapidly than offshore business.

Finally, Switzerland's advantages as a banking safe-haven for wealthy customers - a key reason why it retains a one third share of the offshore private banking market - are on the wane. Low inflation, a strong

currency, and political stability are no longer unique to Switzerland. Many US and European tax authorities regard Switzerland's offshore private banking industry with suspicion. The reputation of Citibank, one of UBS's biggest competitors, has been tarnished by allegations of money laundering for Raul Salinas, the jailed elder brother of Mexico's former

president Carlos Salinas. One of Mr Bogni's responsibilities will be to safeguard UBS's reputation by careful selection of clients; an imperative that fits ill with his ambition to expand the business rapidly.

Mr Bogni believes that increasing the scale of his private banking operation, in an industry where niche operators have traditionally excelled, is not a disadvantage. Quite the opposite. He foresees consolidation. "If you look at the top five names in global investment banking, the same is going to happen in private banking," Mr Bogni says.

"The personal matters of our clients are increasingly complex and size allows us to deliver services in a much more cost effective manner. The danger is that size might spawn a bureaucracy. But I believe that with an organisation of 8,500 people, we have no more bureaucracy than management consulting partnerships like McKinsey, or Bain & Co. If they can run efficient organisations, I see no reason why we cannot do the same."

That is not a view shared by UBS's smaller competitors. Thomas Baer, chairman of Zurich's Julius Baer, does not accept that the pace of consolidation in investment banking will be replicated in private banking.

"Big is not necessarily beautiful," he says. "Our biggest danger is that we are too successful and forced to grow too quickly. Thereby we lose the personal touch."

Mr Bogni does not deny there is a role for private banks like Julius Baer, but he believes that asset-gathering giants like UBS will have a competitive edge, particularly in Europe where total assets under management are forecast to increase from \$8,000bn to \$8,500bn in the next decade.

He is looking forward to increased competition in areas such as internet broking services for wealthy clients. "It should affect our competitors, particularly our US competitors, dramatically. Those that come from the brokerage side are trying to back themselves into private banking. But they still live off commissions and rely on commission-based salesmen. The sooner they feel the pressure from internet broking the less money they will have to invest in expanding their private banking franchise."

Nevertheless, Mr Bogni is under pressure to prove that he

can come up with a winning strategy for cracking the US market. Credit Suisse has already withdrawn because it lacked critical mass, but UBS is committed to expanding its US operation.

"The US is home to UBS's most serious long-term competitors: the private client operations of big US investment banks. This is why Warburg Dillon Read, taken over when UBS merged with Swiss Bank Corporation last year, is so important to UBS Private Banking. Mr Bogni says he will create new investment products to woo wealthy customers away from Merrill Lynch, Gold-

man Sachs, and Morgan Stanley. He will also tap into UBS Brinson, the group's institutional asset management operation, for the best investment advice. "We believe in our ability to manage this business better than others, so we are looking out for acquisitions," says Mr Bogni. It will have to be a very sizeable acquisition to make a dent in the imbalance between UBS's onshore and offshore businesses.

In theory UBS could have a stand-alone private bank with two or three preferential investment bank relationships, says Mr Bogni. But it would probably

have to rely on US investment banks for products.

Whether Mr Bogni can expand the business successfully will in the end depend on his ability to understand the peculiarities of private banking - a culture built on discretion, personalised service and long-term relationships and which differs considerably from the ethos at results-oriented investment banks.

"You have to be born a private banker really to be able to do it successfully," Mr Baer says. Mr Bogni disagrees. He is out to prove he can do things his way.



## Essential guide to Rudi Bogni

Facts of life: born October 2, 1947.

Educated: Milan's Bocconi University, doctor of economics and business administration. Career mostly upwards with a few sideways moves. Chase Manhattan (1972-80), Italy. Graeco, Germany, New York. Midland Bank, 1980-90; one of several ex-Chase bankers brought in to shake up what used to be the UK's biggest bank - posts included head of international division and group treasurer. Quit after it became obvious Midland was going to be taken over by HSBC. Joined Swiss Bank Corporation (SBC) in 1990 as head of London operation. Mid-life crisis? Two-and-a-half

years ago career at SBC, smallest of the big three Swiss banks, appeared to have hit the buffers. He took a 15-month sabbatical at London's Imperial College to work up on financial options theory so that he could understand what his traders were doing with the bank's money on his return. Lucky streak: decision not to return to investment banking was a wise move given the way UBS has since clipped Warburg Dillon Read's wings. In July 1997 took charge of SBC's private banking business, not normally regarded as a fast track to the top. Six months later SBC announced merger with much bigger UBS, and Bogni named head of private banking which doubled in size.

Favourite food: Italian - "it's light and healthy". Runners up: traditional Turkish, French and Chinese cooking. Very fond of Japanese cuisine - "I like things raw". Favourite holiday destination: "Any country that offers sunshine, olive oil, good bread and wine". Favourite dream: taking over Charles Schwab, the US electronic discount broker. Given that Schwab's market capitalisation of \$27bn is now bigger than that of Merrill Lynch, there is more chance of Schwab taking over UBS over the long run. But things could change, and Bogni has been promised \$10bn for acquisitions.

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## TECHNOLOGY ELECTRONIC NAVIGATION SYSTEMS

## Devices to help put you on the map

Getting lost may soon be a thing of the past thanks to a range of car navigation systems, writes Geoff Wheelwright

You are lost in Tokyo, one of the largest cities in the world - and one that presents vast navigational challenges for the uninitiated. You do not want to offend your Japanese customers by being late for an urgent business meeting with them, but neither do you want to abandon your rental car. As you drive around looking for a familiar landmark, you realise that what you need is an electronic navigation system.

On sale in Japan, such devices are becoming increasingly popular as mobile digital navigation based on GPS (Global Positioning System) technology begins to take off.

In Tokyo, you can see a bewildering range of such devices from leading consumer electronics manufacturers such as Alpine, Casio, Panasonic, Pioneer, Sharp and Sony.

Most of these store the mapping information on CD-Rom or in flash memory, but one of the latest is a family of navigation products from Pioneer that harnesses the much higher storage capacity of Digital Versatile Disc (DVD) technology.

The Pioneer DVD Car Navigation System combines DVD-Rom storage with colour LCD map displays and GPS navigation technology. These systems are designed to ensure not only that you know where you are at any given moment - but also how that relates to reaching your destination.

Pioneer introduced a DVD Car Navigation System in June 1997, but that was

based on using only a single-sided, single layer of a DVD disc - which limited the detailed road maps, sight-seeing information and background data that could be stored on it. The latest devices use single-sided, dual-layer disc technology to yield 8.5Gb of storage - which exceeds the hard disc capacity on most new PCs for home use.

These systems marry DVD and GPS by having the GPS system use satellite communications to determine where you are and then using map data from the

DVD drive to display that information on a built-in colour LCD display. The on-board computing power controlling the DVD drive may be used to retrieve and display live traffic information and to some route planning.

You do not even have to take your hands off the wheel to do this since Pioneer offers a voice recognition option that lets you give instructions to the navigation system.

Pioneer offers an option on some models to use an FM multi-channel tuner, VICS (Vehicle Information Communication System) and DGPS (Differential Global Positioning System) signals for quicker and more accurate positioning information.

Prices range from £200,000 (£1,100) to £300,000, depending on which model you take with which options. But Pioneer expects significant sales and announced initial production runs of about 10,000 units per month for all models combined.

Similarly, Matsushita, (which trades as Panasonic) recently announced that it too had launched a DVD car navigation system with built-in DVD-Rom. The system also claims compatibility with existing DVD-Rom and CD-Rom disks and costs £300,000. Initial monthly production is also 10,000 units.

Using the DVD-Rom system, Matsushita says it can store the entire "25m/50m scale all-Japan 630-city detailed map" on a single disc, and achieve high-speed search and access 40 per cent faster than conventional systems. The DVD map software is also apparently able to search for addresses by phone number, as well as by Japanese alphabetical entry.

Slow going: the systems can help in route-planning

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## PUBLIC NOTICES

Notice Published by the Secretary of State under subsections 8(5) and 10(6) of the Telecommunications Act 1984

The Secretary of State hereby gives notice as follows.

1. He proposes to grant licences under the Telecommunications Act 1984 ("the Act") to IFC Global (UK) Ltd, ICD Global Communications, PLDecompass Limited, Telet2 Communications Services Limited, Carier One Limited, Tella UK Ltd, Swisscom (UK) Limited and USA Global Link (UK) Limited ("the Licensees") to run telecommunication systems in the United Kingdom. The licences to be granted to IFC Global (UK) Ltd, ICD Global Communications, PLDecompass Limited, Telet2 Communications Services Limited, Carier One Limited, Swisscom (UK) Limited and USA Global Link (UK) Limited will each be for a period of six months, thereafter being subject to revocation on one month's notice. The Licence to be granted to Tella UK Ltd will be for a period of 25 years subject to earlier revocation in specified circumstances.

2. The principal effect of each of the licences to be granted to IFC Global (UK) Ltd, ICD Global Communications, PLDecompass Limited, Telet2 Communications Services Limited, Carier One Limited, Swisscom (UK) Limited and USA Global Link (UK) Limited will be to enable each of those Licensees to install and run telecommunication systems in the United Kingdom which may be connected to telecommunication systems outside the United Kingdom and to provide a wide range of services but not any domestic services (i.e. services involving the conveyance of messages which originate and are subsequently terminated in the United Kingdom) or mobile radio services. Each Licensee authorises connection to a wide range of other systems, including earth orbiting apparatus.

3. The principal effect of the Licence to be granted to Tella UK Ltd will be to enable Tella UK Ltd to install and run telecommunication systems throughout the United Kingdom and provide a wide range of services but excluding mobile radio services and certain international services. This Licence authorises connection to a wide range of other systems, including earth orbiting apparatus, allowing the provision of some types of international service. On securing a share of 25% or more of the market in respect of particular services in an area specified by the Director General of Telecommunications, Tella UK Ltd may be obliged to make available those telecommunication services to all who reasonably request them within that area.

4. Each licence will be subject to conditions such that section 8 of the Act will apply to it, thereby making each of the systems run under each licence eligible for designation as a public telecommunication system under section 9 of the Act. It is the intention of the Secretary of State to designate each of the Licensees systems as a public telecommunication system.

5. The Secretary of State proposes to grant each licence in response to an application from each licensee for such a licence because he considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services and will maintain and promote effective competition between those engaged in the provision of telecommunication services.

6. He proposes to apply the telecommunications code ("the Code") to Tella UK Ltd subject to certain exceptions and conditions throughout the United Kingdom. The effect of the exceptions and conditions to the application of the Code is that Tella UK Ltd will have duties:

- to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above ground apparatus as is already installed for any purpose;
- to comply with conditions designed to ensure efficiency and economy on its part, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of its apparatus;
- to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;
- to keep and make available records of the location of underground apparatus and copies of the exceptions and conditions in its licence to its powers under the Code; and
- to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.

7. The reason why the Secretary of State proposes to apply the Code to Tella UK Ltd is that Tella UK Ltd will need the statutory powers in the Code to install and maintain the telecommunication systems which are to be installed and run under its proposed licence.

8. The reasons why it is proposed that the Code as applied should have effect subject to exceptions and conditions referred to above are that they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible and that Tella UK Ltd can meet (and relevant persons can enforce) liabilities arising from the execution of works.

9. Representations or objections may be made in respect of the proposed licences, the application of the Code to Tella UK Ltd and the proposed exceptions and conditions referred to above. They should be made in writing by 2 March 1999 and addressed to the Undersecretary at the Department of Trade and Industry, Communications and Information Industries Directorate, 2.80 Grey, 151 Buckingham Palace Road, London, SW1W 9SS. Copies of the proposed licences can be freely obtained by writing to the Department or calling 0171 215 1756.

Alan Proud  
Department of Trade and Industry

1st February 1999



## INSIDE TRACK



LUCY KELLAWAY

## Hello dear readers!

Greet your chair, chat to your window – and if you want to go really feel crazy, why not give your colleagues a massage

Good morning kettle! Hello kettle! How good of you to be just where I can find you. This morning I have been greeting objects around the house following a tip-off from a friend who works for one of the world's most successful organisations.

The company has just sent him on a training course called Breakthrough Mind, Breakthrough Body, and he has told me all about how marvellous he feels.

Together with 50 of his colleagues, from vice-presidents to secretaries, he spent a day in a tracksuit loosening up – shedding that stress until his mind was ready for breakthrough results. For a start he trotted around the room saying hello to windows and chairs. Then he had to greet his colleagues as if they were long-lost friends he had not seen for 10 years. Finally – and this is the really gruesome bit – he had to pair up with a colleague and give and receive a massage.

That very day I had been reading about how the staff at St Luke's, the ultra-trendy advertising agency, love to massage each other. But the idea that it was spreading to blue chip companies is sad news. What is going on? Last week I wrote about the "human moment", which is a fancy phrase to describe the need for workers to meet occasionally. But this is worse by far, suggesting that we have lost any idea of how to relate to our colleagues in a normal way. I like my colleagues. I work well with them. But massage? No thank you.

I try never to think about stress, and never go on stress courses, because by far the most stressful thing in life is worrying about how stressed you are. Just as insomniacs must never fret about how little sleep they are getting, so it is a bad idea for people who are under any sort of pressure to start consciously thinking about that pressure. The stress management industry, instead of making matters better, tends to make it much worse.

But now I see that our obsession with stress has reached new heights. I was lying in the bath the other day, idly reading the

packaging of some expensive new shampoo I had just bought. And to my alarm I read on the bottle that it is not just busy people who suffer from stress, but their busy hair does, too.

According to Nicky Clarke's Hairomotherapy shampoo, hair – especially that of celebrities – gets stressed out, and this shampoo helps it recover. Hair is dead, and I had thought therefore it was beyond stress. How wrong. I discover my hair reacts as badly to stress treatments as I do. One wash with this fancy shampoo and it is looking just as I would look if I had to give a massage to a colleague: distressed.

The middle manager is back in fashion. If you are a middle manager, this may be news to you. But according to a report from PwC, the world's largest professional services organisation, the middle manager has never been more important. At least, I think that is what the report says.

The consultancy has studied the middle managers of five countries and concluded that they are "increasingly the linchpin of strategic and competitive competence". Even more mysteriously, they are "stabilisers who make real change possible and the source of real-time strategies". Some middle managers, especially in the UK (where I suspect we mean more than other people), feel undervalued; the solution, suggests PwC, is to "enrich the role mix".

But then as I looked to the back of the report it all became clear. It is written by two consultants, one of whom is described as "a

member of the Global Leadership Team in the capacity of Development for the Strategic Change area". The co-author has an equally impressive title. He is "Global Leader of the PricewaterhouseCoopers Full Value Procurement priority service team". If a company cannot manage to offer a clear description of what its own people do, it is not at all surprising that it makes such a meal out of describing the jobs of others.

In the same post I got a booklet from another consultancy, Bridgewater. This publication goes to the other extreme in offering simplistic, formulaic solutions based on the sound bites from 20 esteemed business leaders. Yet out of these sound bites some interesting contradictions emerge. The leaders all pay lip-service to the fashionable view that it is essential for people who will contradict them. Dan Wagner, chief executive of Dialog, puts it: "You need people to challenge you by saying: 'That's not the right way to do this...'"

But on the next page the truth of the matter comes out rather more strongly. Those who do not agree with the competition need to be fired. "It's important to deal with what I call 'blockers' – people who are not happy with the vision – because they tend to subvert the commitment of those around them," says the chief executive of English China Clays. The sooner you fire these people the better, echoes the chairman of Unilever. So there you have it. Criticise if you dare, but you better be prepared to back down quickly. Otherwise it could cost you your job.

lucy.kellaway@ft.com

HE ATTEMPTED TO GIVE THE CHAIRMAN A STRESS-RELIEVING MASSAGE



## BUSINESS TRAVEL NEW AIRLINE ALLIANCE

## Oneworld, lots of benefits

Roger Bray looks at the advantages of a deal that has satisfied competition authorities and hopes to do the same for customers

Oneworld, a tie-up between British Airways, American Airlines and three other international carriers, comes into effect today offering huge benefits to business travellers. What are these benefits? And why should this alliance be acceptable to the competition authorities on both sides of the Atlantic when BA's proposed, separate deal with American is not?

Oneworld's other members are Canadian Airlines, Cathay Pacific and Qantas. (A sixth partner, Finnair, joined late and will not introduce service changes until later this year.) The five airlines will offer through check-in on most services, although it is still not possible to check bags to onward destinations within the US without passing through customs at a gateway airport. Wherever possible, the airlines will move arrival and departure gates close together to cut hassle for connecting passengers.

The airlines also promise that staff will treat their partners' passengers as if they were their own. Travelers belonging to all five frequent-flyer schemes can earn and redeem miles on any of the partners' flights. Those eligible will have access to more than 200 airport lounges, priority check-in, standby and wait-listing, and common stickers will be issued for each airline's top tier cards.

There are complications, however. Oneworld is designed to avoid US antitrust objections because it does not involve any new attempt to standardise fares or juggle with capacity or flight frequencies. But while argument about the BA-American deal rumbles on, points earned with one on North Atlantic flights will not count towards top tier membership with the other.

And while other carriers within the group may be able to dovetail connecting flight times, American says it is not yet allowed to do

that with BA. A spokesman says: "Without antitrust immunity there are four things we can't talk to BA about: scheduling, pricing, frequency, capacity."

Nevertheless, this kind of alliance appears to offer

**The airlines promise that staff will treat partners' passengers as their own**

business passengers most of the benefits of the closer and more controversial link, with few, if any, of the perceived drawbacks.

Whatever kind of relationship they strike up, airlines still have an uphill task persuading sceptical travellers that there is much in it for the customer. A recent worldwide survey of long-haul business passengers by

the International Air Transport Association showed almost one-in-five disagreed to some degree with the proposition that they derive advantages from such deals.

The main perceived risk is that alliances will stifle competition and force up fares. A study by academics at the University of Illinois claimed recently that co-operation between United Airlines, Lufthansa and SAS, members of the rival Star Alliance, had held prices down. It found that on international routes where passengers make connections, their fares were 36 per cent lower than those charged by carriers not in the group.

It concluded that international alliances "generate substantial price benefits" for passengers switching between flights operated by their members, and that there was no clear evidence that they reduced competition on routes between gateway airports.

If the United link with Lufthansa and SAS were terminated, it said, fares would rise substantially in all of the connecting markets

served by the three carriers. The study calculated that, if the alliance did not exist, the cumulative cost to passengers in higher fares "would range between US\$50m and \$82m per year".

But the US Justice Department, which is looking closely at the issue, remains unconvinced. And the National Business Travel Association, which represents more than 2,000 US travel managers and service providers such as hotel groups, is concerned that links between carriers may mean a reduction in choice of flights.

As to whether alliance members were making changing aircraft easier by altering schedules or sharing terminals, an NBTA spokeswoman said: "I don't think we have seen much of that yet. We are hoping for a win-win situation where travellers will be able to move seamlessly through an air transportation system which is becoming ever more complicated and at the same time individuals and corporations will enjoy lower fares."

## IT DISTRIBUTED SYSTEMS

## Clustered PCs do a 'super' job

High-performance computers are very expensive, but there is an alternative, writes Paul Talacko

Some computing tasks can be carried out only by top of the range computers. Yet while PCs have plummeted in price, the cost of these "supercomputers" has remained obstinately high.

The solution, say many scientists, is to mimic supercomputers by cobbling together dozens of cheap PCs. The result is a "distributed supercomputer", and the concept is becoming increasingly popular in science, engineering, industry and medicine.

One of the pioneers of this type of system, also known as parallel computing, is Thomas Sterling, senior scientist at NASA's Center of Excellence in Space Data and Information Sciences. With colleagues, he developed the so-called Beowulf class of distributed supercomputer system in 1994.

But other organisations are also involved – notably Inktomi, the Silicon Valley company whose Internet search-engine software is rooted in computer clustering technology.

Beowulf, says Mr Sterling, was the result of a number of coincidences, including a request from NASA for a machine of a certain capability, and the availability of cheap mass-produced hardware and the necessary software expertise.

ter. But the budget was a measly \$50,000, far too low for a high-performance computer.

"I did an analysis and found that the mass market approach would have the required performance," says Mr Sterling. "We could link the PCs together with networking cables and use the emerging Linux operating system. A colleague, Donald Becker, had the software expertise to make it work."

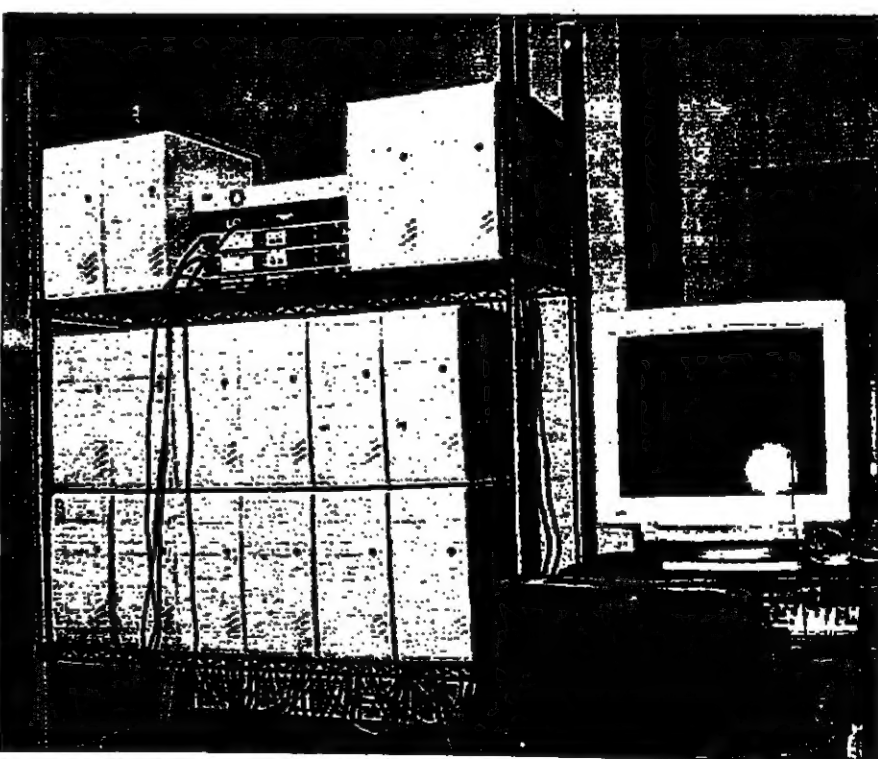
Applications for Beowulf class systems, he says, include cosmological simulations, simulations of the sun and the effect of solar wind on the atmosphere, climate models, simulating the structure of airframes, fluid dynamics, nuclear fusion power plants and car crashes.

In the commercial sphere applications have mushroomed, in particular in the field of web servers and for databases, and in the area of data analysis or "data mining" where companies are looking for purchasing patterns among customers.

**A Beowulf teraflop machine should cost \$1m, compared with \$100m for an equivalent supercomputer**

One of the most important distributed supercomputer projects is the Avalon computer at the Los Alamos National Laboratory. This is a 10 gigaflop machine that cost only \$150,000 and is used as a general purpose supercomputer for applications ranging from astrophysics to molecular dynamics.

In medicine, use of Beowulf systems is growing rapidly for identifying such things as brain tumours on



Computer cluster: Hrothgar is a Beowulf class system in operation at the Goddard flight center

CAT (computer-aided tomography) and NMR (nuclear magnetic resonance) scans. "Often it takes hours for the computers to do calculations, and in some cases this can be life threatening. A Beowulf class system may reduce this considerably," says Mr Sterling.

But he admits that Beowulf class systems cannot always be used as substitutes for supercomputers. Some problems are inherently "serial" in nature, such as those in crypto-analysis and particle phenomenology.

**A Beowulf teraflop machine should cost \$1m, compared with \$100m for an equivalent supercomputer**

so cannot be handled by smaller PCs working together in parallel.

Development of Beowulf is continuing and within 18 months Beowulf systems will be able to comprise 1,000 linked computers forming machines capable of 1 teraflop (1 million million floating-point operations per second). The price of a Beowulf teraflop machine should be about \$1m, compared with \$100m for an equivalent supercomputer.

Meanwhile, Inktomi, founded in 1996 by Eric Brewer and Paul Gauthier, researchers at the University of California at Berkeley, is already making money from its own computer clustering technology.

"The clusters in which Inktomi specialises are ideal for sorting large quantities of data," says Mr Brewer. "but they are also ideal for rendering images, and many of the special effects on the feature films Toy Story and Titanic were achieved using this technology."

The Inktomi system is also well suited for "caching". This involves storing frequently accessed web pages at a site nearer to users and therefore substantially increasing access times.

The cluster that Inktomi has installed for the Internet server provider America Online can handle more than a billion hits per day," says Mr Brewer.

Inktomi is also developing a shopping search engine based on its clustering technology. "As in other applications, this focuses on data intensive processing allowing users to search through data very quickly," he says.

There are a number of advantages to this clustering technology, he says. "For one, every time you add another PC to the cluster you get an additional input/output bus [connection]. That increases the bandwidth available, increasing data transfer speeds."

"Another benefit," he says, "is that on the internet, machines must be up a bit of the time, and a cluster has the advantage that if one node [PC] goes down the remainder of the cluster remains working." Also he says, it is easy to add nodes, so a business can increase capacity when it needs to, rather than having to anticipate growth rates.

But it is cost that Mr Brewer believes will continue to drive the market for distributed supercomputers, especially as programming methods become more sophisticated. In addition, with projects creating clusters using commercial operating systems such as Microsoft's Windows NT and Apple's MacOS, the number of distributed supercomputers is bound to increase.

Mr Sterling, too, is enthusiastic about the future: "Every computer science department will soon have its own Beowulf."

## EDUCATION APPOINTMENTS

University of Oxford  
Said Business School

The Said Business School, the University of Oxford's business school, is in the process of establishing itself as one of Europe's leading centres for management education. The School is taking full advantage of being integrated into the heart of one of the world's greatest universities in developing its programme of teaching and research. By 2001, it will have a new £25 million building that will provide outstanding facilities for faculty and students.

The School is engaged in a major expansion of its undergraduate, postgraduate, executive education and research programmes. As part of this process, it is seeking, in conjunction with colleges of the University, to appoint six new lecturers.

The specialisms and college associations of the six posts are as follows:



Strategy, in association with a Fellowship at Brasenose College;



New Business Development, in association with a Fellowship at Exeter College;



Finance, in association with a Fellowship at Lincoln College;



Operations Management, in association with a Fellowship at St Hugh's College;



Marketing, in association with a Fellowship at Worcester College;



A further opportunity for a successful woman candidate is available at St Hilda's College. The area of academic specialism is open.

Further particulars containing details of the duties and full range of emoluments and allowances attaching to the university and college posts, may be obtained from Deborah Lisburne, Said Business School, Radcliffe Infirmary, Woodstock Road, Oxford OX2 6HE, Tel: 01865 228821, e-mail: [sowcs@sbs.ox.ac.uk](mailto:sowcs@sbs.ox.ac.uk) to whom completed applications (ten copies or one if emailing) should be sent by 23 February 1999. Interviews will be held on 15/16 March. Further details about the Said Business School can be found on [www.sbs.ox.ac.uk](http://www.sbs.ox.ac.uk). Further posts will be advertised in the following academic year and potential candidates in any area of management are invited to register their interest.

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## INSIDE TRACK

## BUSINESS EDUCATION ENVIRONMENT

# Green idea ready to take root at school

Educators have been slow to grasp environmental issues, writes Vanessa Houlder

"The sustainability agenda is developing faster than any other part of the business agenda and... the relevant understanding and skills are likely to be necessary conditions of success in the 21st century business world." *Livia Destiane, chairman 3M.*

Growing numbers of business leaders are prepared to endorse the importance of environmental management skills. But if business schools are a sensitive barometer of the concerns of companies, the much-awaited "greening" of business has a long way to go.

Environmental issues are rarely incorporated into the core curriculum of business schools; recruiters are rarely interested in environmental expertise and schools' commitment to environmental issues usually lapses with the departure of the member of faculty who championed them.

These are the conclusions of a study of US business schools by the World Resources Institute, a Washington-based think tank. "Business-environment interactions remain outside the mainstream of business school thinking and analysis," it said.

And yet, in a handful of US business schools, environmental management is being taken increasingly seriously. The WRI highlighted George Washington University, Stern, Kellogg,

University of Michigan, University of North Carolina-Chapel Hill, University of Tennessee-Knoxville, Darden and the University of Washington for their "outstanding" curricula and activities focusing on the environment.

These schools - and a number of others that are launching environmental courses - believe they are responding to the needs of business in integrating environmental issues into their curriculum. As Joseph White, dean of the University of Michigan Business School, puts it: "Environmental issues have become a matter of central concern to business. They also create great business opportunities."

Courses on environmental management are also emerging in Europe. Some offer an unconventional approach to business teaching, notably the New Academy of Business, which was set up by Anita Roddick, the founder of Body Shop.

This runs a short course for British Airways at Lancaster University and a two year part-time MSc at Bath University covering corporate citizenship, sustainable development, fair trade, human rights and the interdependency of the north and south. It is exploring the possibility of putting together an MBA programme run by four European universities.

But the environment also plays a prominent role on the agenda at some mainstream business schools, such as IMD in Switzerland. Its approach to the environment is overseen by Ulrich Steger, who is credited with starting the first environmental management course in



1987, which was run by the European Business School. Prof Steger says the US is five years behind Europe when it comes to interest in environmental management. He traces the emergence of environmental management courses in Europe to a change in attitude on the part of business, which has gradually shifted from view-

**'Environmental issues have become a concern of business. They also create great business opportunities'**

ing environmental protection as a necessary evil to seeing it as a source of competitive advantage. This trend is also under way in the US, although it has been slowed by a different approach to regulation and pricing of energy and waste disposal.

So why, if the environment is taken seriously by business leaders, are the business schools slow to emphasise its importance? One possibility, says the WRI, is that business school

professors have been slow to grasp its importance. "The novelty of environmental management as a subject of business academics could explain resistance to considering this an important business issue."

Another explanation is that students do not always perceive its relevance. At IMD, according to Prof

Steger, students fall into three, roughly equal, groups. One third are very interested in environmental issues; another third are prepared to be convinced, while the rest are entirely unresponsive.

At US business schools, student enrolment in elective courses has not increased as quickly as expected, according to the WRI survey. The reason, it suggests, is that corporate recruiters are rarely interested in whether MBA students are familiar with environmental management issues.

There, it seems, is the rub. Most MBA students will not take a particular interest in the environment unless it makes sense for their careers. And - in spite of support by many chief executives - the commitment to the environment does not trickle down to managers and recruiters.

"As long as environment is a marginalised part of the business community, the incentive is not there for managers or business schools to do it," says Steve Viederman, president of Jesse Smith Noyes Foundation, a US foundation that uses companies' environmental credentials to guide its investment decisions.

The perception that the environment is a fringe issue is being perpetuated by the approach of many business schools. Their coverage of the environment is concentrated in a few disciplines such as strategy, ethics, business and society and conflict negotiations. "As a result, business school students are trained to think of

the environment as a regulatory or social concern not central to competitive success," says the WRI.

So what is the way forward for business schools? The answer, it seems, lies with integrating environmental issues into the teaching of other disciplines. "Incorporating environmental management into existing classes, both required and elective, offers the best strategy for giving all students general exposure to environment-business interactions," says the WRI.

Prof Steger has reached the same conclusion. He describes courses that purely focus on the environment as a "non-starter". Instead of attempting to turn out environmental specialists, business schools should try to train managers with expertise in traditional disciplines who are also aware of environmental issues.

Environmental issues must be included in the mainstream of business thinking, he says. "Unless the environment is taken into account as part of business decision making, it will always be an uphill battle."

## Chicago business school to set up campus in Asia

The University of Chicago graduate school of business has officially announced that it will set up a permanent campus in Singapore. The campus will be similar to its site in central Barcelona where Chicago faculty teach the executive MBA programme and short executive programmes. The campus will be the first permanent site in Asia set up by a US business school. However, instead, in France, announced last year that it will set up a duplicate of its Fontainebleau campus in Singapore.

Classes for the Chicago executive MBA programme will begin in autumn 2000 and are intended for executives who want to study while working. The programme will be taught in 16 one-week modules spread over 19 months and for part of the programme participants will be taught alongside their peers from the executive MBA courses in Chicago and Barcelona. Participants from Singapore will have to travel to Chicago and Barcelona as part of the programme.

The new campus is a building with national heritage status and is situated in the Orchard Road section of Singapore. The House of Tan Yeok Nee, as it is called, will be completely refurbished before the start of the programme.

Chicago: [www.gsb.uchicago.edu](http://www.gsb.uchicago.edu)

## Student award scheme

The UK's Association of Business Schools will today launch an award scheme which gives £5,000 worth of prizes to management students. The scheme has a

number of categories for both undergraduates and MBAs. Closing date for applications is April 30. ABS: [www.the-abs.org.uk](http://www.the-abs.org.uk)

## Investment lab plan at Ohio

William "M" Batten, former chairman of the New York Stock Exchange, has given \$500,000 (£308,000) to the Fisher College of Business at Ohio State University to set up the Batten Investment Laboratory. It will be used by the Student Investment Management class, which invests in the stock exchange. In 1990, its investment portfolio was worth \$6m; today it is worth \$15m.

Mr Batten was chairman of the New York Stock Exchange from 1976 to 1984 and was chief executive of J.C. Penney before that. He is also an alumnus of Ohio State University. Fisher College: [www.cob.ohio-state.edu](http://www.cob.ohio-state.edu)

## Swiss venue for symposium

Students from the University of St Gallen, in Switzerland, and Harvard are organising an International Management Symposium in Switzerland in May and June. The symposium, founded in 1969, traditionally attracts top business leaders as well as students from universities worldwide.

St Gallen: [www.ism.unisg.ch](http://www.ism.unisg.ch)

## Kellogg dean's honorary award

Donald Jacobs, dean of the Kellogg school at Northwestern University, has received an honorary doctoral degree from Nijmegen University in the Netherlands. The award is to recognise his work in developing and promoting management education.

Nijmegen: [www.nijmegen.nl](http://www.nijmegen.nl)



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## OPENINGS

## MADRID

In its eagerly-anticipated El Greco exhibition, the Thyssen-Bornemisza Museum follows his artistic apprenticeship in Crete and Italy, in an attempt to shed light on his subsequent "Spanish transformation". The show, comprising 80 works from the years 1560-1600, opens on Thursday and runs until May 16.

## GLASGOW

In the space of two years, Scottish director-designer David McVicar has become one of the hottest properties in international opera. On Saturday he returns to the Theatre Royal for Scottish Opera's new production of *Der Rosenkavalier*. Richard Armstrong conducts, and Joan Rodgers (right) is the Marschallin.

## LOS ANGELES

Degas's hitherto unnoticed interest in photography is explored in an exhibition opening at the Getty Museum tomorrow.



First seen in New York last autumn, the show travels to Paris in May.

## EDINBURGH

An exhibition opening at the National Gallery of Scotland on Friday sheds light on one of the most celebrated of British architects. "Robert Adam: The Creative Mind" presents a selection from his rich legacy of architectural drawings, starting with his Italian tour in the mid-1750s, and culminating with his studies for Cullen Castle and Edinburgh's Charlotte Square.

## PARIS

Phyllis Lloyd's staging of *Macbeth* was originally intended as a final flourish for the Royal Opera before the closure of Covent Garden in 1997 - but

last-minute technical hitches forced its abandonment. As a co-production with the Paris Opera, however, it finally comes to life at the Bastille on Wednesday.

Gary Bertini conducts, and the Macbeths are sung by Jean-Philippe Lafont and Maria Guleghina.

## CHICAGO

After visits to Rotterdam tonight and London's Festival Hall on Thursday, Riccardo Chailly and the Royal Concertgebouw Orchestra cross the Atlantic for a six-city US tour. It opens at

Chicago's Orchestra Hall on Sunday, and takes in New York on February 12 and 14.

## NEW YORK

Caryl Churchill's *Blue Heart* double-bill, first seen at London's Royal Court in 1997, is new in New York this week. Made up of two distinct one-act plays, in a staging by Out of Joint, the whole is directed, as in London, by Max Stafford-Clark. The venue is Brooklyn Academy of Music's Majestic Theatre and the cast

includes Gabrielle Blunt and Pearce Quigley (left). Uma Thurman is the latest Hollywood star to grace the stage, in a new version of Molière's comedy *Le Misanthrope*, currently in previews at the Classic Stage Company. Adapted by Martin Crimp, the play is set in London, and co-stars Roger Rees.

## LONDON

Birmingham Royal Ballet comes back to London for a first season in the new Sadler's Wells Theatre, playing a week of David Bintley's bold historical epic *Edward II* (right) - and no holds barred in the hot-poker division. Next week, a varied repertoire includes Ninette de Valois' adorable *Prospect Before Us* and Twyla Tharp's *In the Upper Room*.



## THEATRE IN LONDON

## Little focus provided for actorly skills

Why has the National Theatre chosen to stage Alexander Ostrovsky's play *The Forest*? It is fairly interesting to see anything by Ostrovsky (1823-1886), but at no point in *The Forest* does he appear at his most remarkable or his most entertaining. Why has Alan Ayckbourn, a master of theatrical craftsmanship, adapted it and yet left its every individual scene feeling too long? Why has the director Anthony Page, who has been responsible for several of London's finest productions in recent years, brought this one to so unsatisfying a condition? None of the performances is quite good enough.

*The Forest* was written in 1870, and what makes it historically interesting, in parts, is the way that it sometimes seems to anticipate scenes or characters that would recur in plays by several later writers. But in each case you cannot help feeling that the later playwrights did it much better. The characters will remind any theatregoers of plays from Chekhov to Beckett; and the châteline, Raisa Pavlovna, happens also, by chance, to parallel Natalia Petrovna, heroine of Turgenev's play *A Month in the Country*. Big deal. But at the National, one cannot even trust the historical features of Ayckbourn's version. He gives one of the characters a joke about *Swan Lake*; but that ballet was not composed until 1877, seven years after Ostrovsky wrote his play.

Yet amid all the fog of the familiar-feeling scenarios, there are odd episodes that suddenly loom out with strange freshness. In particular, the startling tragicomic scene in Act Four when Aksyusha, a young dependant of Raisa Pavlovna's, is suddenly seized by a feeling of such despair, her life so hopeless while controlled by others, that she tries to drown herself; and then Gennady Neschastlivtsev, her cousin and a wandering actor, not only saves her life but restores her to hope.

In this scene and

elsewhere, as Gennady Neschastlivtsev, I have never seen Michael Feast better. But the role needs an actor of bursting spontaneity and abundant charm: two qualities the over-accomplished Feast lacks. Likewise, Niamh Linehan shows us all the contrasting facets of Aksyusha without ever capturing our sympathy. But she has talent; so do Darren Tighe as her young lover Pyotr Ivanovich Vosmibratov, and David Bark-Jones as the duplicitous, young Aleksey Sergeyevich Bulanov, who both give good performances without ever persuading us that theirs are good roles.

A great deal of the comedy rests on Gennady's fellow-actor Arkady Schastlivtsev, played here by Michael Williams. But Williams is becoming an unfunny caricature of actorliness: his very voice is now perpetually disfigured by a whinnying vibrato. Frank Windsor, Royce Mills, Windsor Davies and Peter Gower contribute four absolutely staple caricature performances: standard stuff, with no original or spontaneous touches anywhere. The best and funniest performance is probably that of Julie Legrand, an over-artful actress who nonetheless is here often very enjoyable as Raisa's sly and flattering servant Ulita.

At the play's centre is Frances de la Tour as Raisa Pavlovna. Hers - unusual for this actress - is a curiously unresolved performance. Her voice and her delivery of the lines are assured and, if anything, over-relaxed, tipping things to the brink of archness. But her gestures and body language are busy and under-relaxed. With her, as with William Dudley's lavish and picturesque designs - and as indeed with the whole production - one sees abundant skills spilling over this way and that without ever finding a proper focus.

Alastair Macaulay



Dosso treats the most commonplace subjects with unexpected freshness: 'Drunkness', c.1521

## NEW YORK EXHIBITION DOSSO DOSSI

## Master with a comic touch

Paul Jeromack enjoys the humour and humanity in the work of a 16th-century Italian court painter

clim and coy sensuality of the Roman, Guido Renard, and the Parmese, Parmigianino, and, most notably, the often eccentric and anti-classical works of Dutch and German artists.

While it is often believed that Dosso gleaned knowledge of northern art solely through prints (Dürer's engravings supplied him with animals on several instances), his highly pitched colours, picturesque fantasy and calligraphic flourishes seem to suggest knowledge of paintings by Lucas Cranach, Hans Baldung Grien and especially Albrecht Altdorfer, with whom Dosso's landscapes have a deep affinity.

But Dosso is more than merely an imaginative eclectic. He is perhaps the most genial of all 16th-century Italian artists, capable of treating the most commonplace subjects with unexpected freshness. Seldom has St Jerome's wilderness retreat been treated so invitingly, nestled in a forest glade and bordered by sparkling lakes, while the Madonna and Child are serenaded by angels holding almost comically oversized song-sheets.

Even an altarpiece devoted to the doctor saints Cosmas and Damian has a quirky twist, as one messages the sore jaw of a strapping gentleman while the other tri-

umphantly holds aloft a glass with an extracted tooth.

But Dosso was never more in his element than when composing a work of fantasy and whimsical allegory. Here are the Met's own "Three Ages of Man", the "Circus" from Washington (surrounded by hapless lovers turned into obedient pets) and the Borghese Gallery's "Melissa", where Ariosto's enchantress, bedecked in oriental robes and turban, peers off into the distance.

Humour was an integral part of Dosso's art, as shown in the low comedy of the Punch and Judy fury of "Two Women Quarrelling", and the still unexplained

so-called "Allegory of Hercules" from the Uffizi, of a flower-wreathed old man mocked by a company of grinning buffoons, hoosy courtiers and a fluffy Maltese puppy. A touch of comedy is evident in even the monumental "Allegory of Fortune" from the Getty, featuring a Michelangeloesque nude unsteadily holding a cornucopia while squatting on a large bubble.

There is one unfortunate by-product of this magnificent exhibition. Dosso's light and free technique has proved especially vulnerable to over-zealous restoration, and several pictures - the "Two Scenes from the Life of Christ" from Ferrara, the

Washington "Scene from a Legend", and the allegorical rhomboids from Modena - are either complete ruins or scrubbed shadows of their original appearance.

Most instructive is the Getty's "Allegory with Pan", which has come down to us in patchwork state: Dosso himself seems to have over-painted the clothed female figure, which was then revealed by a radical, 19th-century stripping. What one sees today may be all by Dosso, but it is not what the artist intended at all.

Until March 28 at the Metropolitan Museum of Art, New York, then at J. Paul Getty Museum, Los Angeles, April 27-July 11.

## INTERNATIONAL Arts Guide

## AMSTERDAM

**OPERA**  
Netherlands Opera, Het Muziektheater  
Tel: 31-20-551 8911  
Carmen: by Bizet. New staging by Andreas Homolik, conducted by Edo de Waert. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 3, 6

## BARCELONA

**EXHIBITION**  
Fundació Joan Miró  
Tel: 34-93-329 1908  
www.fon.miro.es  
Magritte celebrating the centenary of the artist's birth, this show contains over 90 paintings and 50 photographs; to Feb 7

## BERLIN

**CONCERT**  
Konzerthaus  
Tel: 49-30-259090  
Deutsche Oper Orchestra: conducted by Jiri Kout in works by Brahms and Bartók, with

piano soloist Gerhard Oppitz; Feb 3

## OPERA

Deutsche Oper  
Tel: 49-30-34384-01  
● Faust: by Gounod. Conducted by Sebastian Lang-Lessing in a staging by John Dew; Feb 4  
● Menon: by Massenet. Conducted by Sebastian Lang-Lessing in a staging by Cesare Lievi; Feb 2, 5

## CHICAGO

**OPERA**  
Lyric Opera of Chicago  
Tel: 1-312-332 2244  
www.lyricopera.org  
Roméo et Juliette: by Gounod. Conducted by John Nelson in a staging directed by Nicolas Joël. The cast stars Roberto Alagna and Angela Gheorghiu; Feb 1, 5

## FORT WORTH

**EXHIBITION**  
Kimbell Art Museum  
Tel: 1-817-332 8451  
www.kimbellart.org  
Matisse and Picasso: A Gentle Rivalry. More than 100 paintings, sculptures and drawings on loan from collections around the world make up this first-ever exhibition devoted to the relationship between the two great modernists; to May 2

## GLASGOW

**OPERA**  
Theatre Royal  
Tel: 44-141-332 8000  
Scottish Opera: Der

Rosenkavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 6

## LONDON

**CONCERTS**  
Barbican Hall  
Tel: 44-171-638 8891  
● London Symphony Orchestra: conducted by Colin Davis in works by Elgar, Bartók and Beethoven, with violin soloist Sarah Chang; Feb 3, 4  
● London Symphony Orchestra: conducted by Colin Davis in works by Beethoven and Elgar, with piano soloist Richard Goode; Feb 7  
● Royal Philharmonic Orchestra: conducted by Daniele Gatti in works by Brahms and Mahler, with soprano Ruth Ziesak; Feb 1

Royal Festival Hall  
Tel: 44-171-960 4242  
● BBC Symphony Orchestra and Singers: conducted by Andrew Davis in works by Boulez; Feb 1  
● London Philharmonic Orchestra: conducted by Kent Nagano in works by Bartók and Berlioz, with viola soloist Yuri Bashmet; Feb 3  
● Royal Concertgebouw Orchestra: conducted by Riccardo Chailly in works by Brahms and Schoenberg, with violin soloist Vadim Repin; Feb 4

**EXHIBITIONS**  
Barbican Art Gallery

Tel: 44-171-638 8891  
● Africa for Africa: A Photographic View. Spanning the breadth of photography produced in Africa since the 1920s. Includes works by Mama Cassel, Seydou Keita and Samuel Fosso; to Mar 28  
● Picasso and Photography: The Dark Mirror. Exhibition exploring the influence of photography upon Picasso's painting, and including photographs taken by Picasso; to Mar 28

National Gallery  
Tel: 44-171-639 3321  
Portraits by Ingres: Images of an Epoch. 40 paintings and 50 drawings by the 19th-century French painter. Includes major loans from museums in France, the US and elsewhere; to Apr 25, then touring to the US

## LYON

**OPERA**  
Opéra National de Lyon  
Tel: 33-4-7200 4500  
Zelmira: by Rossini. Conducted by Maurizio Benini in a staging by Yannis Kokkos, with a cast including Mariella Devia; Feb 1

## MONTREAL

**EXHIBITION**  
Musée d'Art Moderne  
Tel: 1-514-285 1600  
www.mbam.org  
Monet at Giverny: 22 paintings, produced during the last 20 years of the artist's life, loaned by the Musée Marmottan in

Paris; to May 9

## MUNICH

**CONCERTS**  
Philharmonie Gasteig  
Tel: 49-89-5481 8181  
● Munich Philharmonic Orchestra: conducted by Fabio Luisi in works by Wagner and Liszt; Feb 1, 2, 3  
● Symphonieorchester des Bayerischen Rundfunks: conducted by Lorin Maazel in works by Mozart and Bruckner, with piano soloist Murray Perahia; Feb 4

## EXHIBITION

Haus der Kunst  
Tel: 49-89-211270  
The Night: exploring the development of the nocturne, or night-time scene, in western art. Includes early examples by artists including Cranach, baroque works by Caravaggio and his followers, and works by the German romantics. Other artists represented include Goya, Munch, Max Ernst and Magritte; to Feb 7

**OPERA**  
Bayerische Staatsoper  
Tel: 49-89-2185 1920  
www.staatsoper.bayern.de  
Lohengrin: by Wagner. Peter Schneider conducts a staging by Götz Friedrich. Cast includes Adrianna Pieczonka and Waltraud Meier; Feb 3

## NEW YORK

**EXHIBITION**  
Museum of Modern Art

Tel: 1-212-708 9480  
www.moma.org  
Jackson Pollock: first US retrospective since that held at MOMA in 1967. Includes more than 100 paintings and 50 works on paper; to Feb 2, then transferring to London

## PARIS

**CONCERTS**  
Salle Pleyel  
Tel: 33-1-4681 6589  
● Luciano Pavarotti: recital by the tenor, accompanied by pianist Leone Magiera; Feb 1  
● Orchestre de Paris: conducted by Frans Brüggen in works by Beethoven, Hummel and Schubert, with piano soloist Marie-Joséphine Jude; Feb 3, 4

Théâtre des Champs Elysées  
Tel: 33-1-4952 5050  
San Francisco Symphony Orchestra: conducted by Michael Tilson Thomas in works by Canteloube and Mahler, with soprano Dawn Upshaw; Feb 1

**EXHIBITION**  
Grand Palais  
Tel: 33-1-4413 1730  
Un ami de Cézanne et de Van Gogh: le docteur Gachet (1828-1909). Exhibition devoted to the doctor and painter who was a friend to Cézanne, Pissarro, Monet and Renoir as well as to Van Gogh, who famously spent the last weeks of his life with Gachet at Auvers-sur-Oise; to Apr 28, then transferring to New

York

## ZURICH

**EXHIBITION**  
Kunsthaus Zürich  
Tel: 41-1-251 6765  
Chagall, Kandinsky, Malevich and the Russian Avant-Garde: exhibition exploring the artistic upheavals of the first two decades of this century. In addition to important loans from the State Hermitage Museum in St Petersburg the show brings together pictures from provincial museums never seen in the west before perestroika; to Apr 25

## TV AND RADIO

● **WORLD SERVICE**  
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

● **EUROPEAN CABLE AND SATELLITE BUSINESS TV**  
● CNN International  
Monday to Friday, GMT:

06:30: Moneyline with Lou Dobbs  
13:30: Business Asia  
19:30: World Business Today  
22:00: World Business Today Update

● **Business/Market Reports:**  
05:07: 06:07: 07:07: 08:20: 09:20: 10:20: 11:20: 11:32: 12:20: 13:20: 14:20.

At 08:20 Tanya Beckett of FITV reports live from LIFFE as the London market opens.



## COMMENT &amp; ANALYSIS

## Redefining the territory

Businessmen find that Hong Kong's problem since the handover to China is not too little political freedom but too much, write **Rahul Jacob** and **Louise Lucas**

When Hong Kong reverted to Chinese rule in July 1997, there was widespread concern that China would trample on the territory's political and economic freedoms. This was, after all, the oddest of odd couples: the world's freest market being handed over to the world's strongest remaining communist regime.

Eighteen months after the handover, however, Beijing receives measured praise from even its most implacable opponents for allowing Hong Kong to go its own way. "There has been no apparent attempt to intervene by China. They have not been vocal about the actions of the Hong Kong government," says Martin Lee, head of the Democratic Party, Hong Kong's leading political party, and a staunch critic of Beijing.

Instead, in the past few months, vociferous criticism has come from another of Hong Kong's powerful masters: its big businessmen. The debate reached a flashpoint late last month when Li Ka-shing, the territory's most prominent tycoon, said he would not make a US\$1.3bn investment there because of the prevailing political climate. In an interview with the FT recently, Mr Li stressed that Hong Kong remained his base and that he would in future make investments there. "After this time, once the public gets the message, then next time when there is an investment opportunity we can go ahead," he said.

The "message" Mr Li was sending is a subject that has consumed Hong Kong for weeks. Business leaders bemoan what they see as Hong Kong's transformation from an economic-led city to a more political city. The legislature and the press have become increasingly assertive, energetically scrutinising and critical of the establishment.

Last week, for instance, the local legislature's report on the chaotic opening of the new airport in July included a sharp dressing down of top



Li Ka-shing: making his voice heard

government officials. Hong Kong's deep recession last year has added to the potent cocktail. There have been protest marches to Hong Kong Bank and a noisy demonstration outside Mr Li's offices by home buyers who had defaulted on purchase agreements for new flats bought from his property company. "I support democracy in a mature society built on law and order. Democracy should move forward step by step as set out in the Basic Law (Hong Kong's post-colonial constitution)," says Mr Li.

Business leaders, critics reply, are the ones out of step with the new realities. "It is true that Hong Kong is becoming more politicised. It is also true that it is not politicised enough," says Michael DeGolyer, who oversees the Hong Kong Transition Report, a continuing survey conducted by three universities, at Baptist University. Even though Hong Kong remains a nascent democracy, local politicians are not shy about making themselves heard. This has come as a shock for many businessmen.

Through much of the period after the second world war, the British colonial administration headed

by Sir John Gopson, a former diplomat, was almost all bark and no bite, but they have begun to draw blood on the issue of deregulation. "The complaints from big business about increased politicisation are just a smoke screen," says Mr DeGolyer.

The spotlight is now on the telecommunications industry where the government will soon make a decision on whether to allow foreign companies, such as MCI WorldCom, to build their own infrastructure in Hong Kong to compete in the territory's international voice and data market. Local telephone companies, including Mr Li's Hutchison Whampoa, have argued that big international operators would quickly dominate the business after the locals have spent hundreds of millions on building local fixed-line networks. A decision is expected soon. "The government is now balancing the interests of a minority of tycoons against Hong Kong's future as a centre of IT excellence," says Stephen Liddell, MCI WorldCom's Asia Pacific president.

These sound-bite skirmishes are part of the deregulation debate as Hong Kong defines its future. Independent consultants and legislators want the government to loosen the large banks' control on interest rates for savings accounts in the territory. Even in a city as noisy as Hong Kong, the cacophony of conflicting opinions may be unsettling for some, but it is a reflection of the city's inherent pluralism. That cannot be wished away in a city of more than 6m that is home to a large, ever more demanding middle class.

"The pluralistic nature of our society is one of its strengths. It can't be rolled back. One reason multinationals prefer Hong Kong is because there is a free flow of information," says Victor Fung, chairman of the Hong Kong Trade Development Council and of Prudential Asia. Dissent and debate, in other words, are here to stay. Hong Kong's establishment must get used to it.

## LETTERS TO THE EDITOR

## Banana ruling questions EU policy

From Mr Pierre Didier.

Sir, Guy de Joux's article "Bananas" (January 26) rightly suggests that more than the fruit is at stake in this dispute. In fact, the World Trade Organisation ruling puts in question the very European Union development policy applied towards African, Caribbean and Pacific (ACP) countries. No such policy can exist without trade preferences, themselves dependent on licensing mechanisms of the type condemned.

In general, more attention ought to be paid to the consequences on European social values of some of the 18 cases so far completed by the WTO since its creation. The best hormones case is one such example. Under the so-called "precautionary principle", the Europeans tend to limit marketing of products whose innocuous-

ness is unproven. However, the panel decided in favour of the reverse approach. This precedent may be hard to overturn in the genetically modified organisms case and in comparable upcoming cases. Be assured that the old Continent, just recovering from mad cow disease, the blood scandal in France and so on, will not easily accept such U-turns in its health policy for the sake of hard-core free trade.

Likewise, the cultural preferences dear to many European (and other) countries, faced with a neighbour's dominant culture, were made fragile by the weighty precedent of the Canadian Hapag-Lloyd case. The Fuji-Kodak case questioned, among others, national schemes supporting traditional family businesses against more modern forms of distribution, while the Japanese and Korean spir-

its cases terminated preferential tax regimes for popular drinks.

With the Indonesian case, the WTO essentially condemned public support for local infant industries. Even if the latter cases do not directly affect European countries, their impact on certain societal values here cannot be underestimated.

The acceptability of decisions to the WTO's member countries' public opinions is essential if we are to preserve an efficient multilateral dispute settlement mechanism. The cautiousness of the EC Court of Justice in the early years of the EC testifies to the long-term efficiency of a more careful approach.

Pierre Didier, Didier Avocats, Avenue de Tervuren 163, B-1150 Brussels, Belgium

## The threat of 'protection'

From Mr Stephen Simpson.

Sir, The proposed EU and trade union-inspired "protection" for contract workers (January 27) threatens the competitiveness of the UK's computer services industry, and many of its customers.

The rules assume that all those on short-term contracts are in this position against their will, at the behest of uncaring employers. In the thriving UK computer services industry, this is far from true. I voluntarily left secure, well-paid employment to start up my own company. I enjoy working on short-term contracts, and it would take a lot to tempt me back into permanent employment (if there is such a thing). I employ two people, and pay more tax; I make generous pension provisions for my employees and myself. There are lots like me.

This flexibility benefits all, especially the UK economy. For example, it is debatable if many large UK companies could have shown the degree of due diligence concerning Y2K without such a flexible and well-skilled workforce.

These rules will stifle creativity, and may cause freelance staff to look elsewhere to continue their careers. I continually get calls from abroad - this week I have been approached by US companies in Austin, San Francisco and Boston.

I urge all "contractors" to resist these proposals. We can fight our own battles and decide for ourselves how we work. This is not an issue about fairness or social justice (whatever that is); it is about freedom for people to make their own decisions and live their own lives.

Stephen Simpson, managing director, Simpson Professional Services, 127 Twin Oaks Close, Broadstone, BH18 8JZ, UK

## Political economy versus human values

From Mr David J. Collinson.

Sir, In "Trade goes bananas" the underlying issue is not addressed. That concerns a confrontation between financial interests (in particular those of Chiquita) and social concerns (in particular regarding small-scale producers of bananas). Neither the poten-

tial riskability of the product nor the procedural problems of the World Trade Organisation should obscure this central question involving political economy and human values.

The underlying issue is a complex one with serious arguments on each side. It is also an issue that encompasses far-reaching matters of principle. The consistent lack of media coverage of the core of the dispute should itself be cause for concern.

David J. Collinson, department of accountancy and business finance, University of Dundee, Dundee DD1 4EN, UK

## Deploying librarians saves time and money

From Mr Ross Shimmann.

Sir, John Gapper ("Librarians at your fingertips", January 20) rightly points out that corporate librarians can provide more specialised services when freed from basic level searching. Librarians actively promote end-user information access.

However, most users require training to reach a basic level of familiarity with online information services, and those services need to be managed by people with the professional training to really exploit such resources. Information is any organisation's most valuable resource and a deployment of librarians - however thinly stretched - will save an awful lot of time and money. Nothing demonstrates the

value librarians bring to their organisations better than universal end-user access to PC-based information services, whether it is via the web or a proprietary network.

Ross Shimmann, chief executive, The Library Association, 7 Ridgmont Street, London WC1E 7AE, UK

Number One Southwark Bridge, London SE1 9HL

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## ECONOMICS NOTEBOOK GILLIAN TETT

## After the banks

Japan's public finances are in a mess. Some of the biggest institutions are refusing to buy more government bonds, and the Bank of Japan is not coming to the rescue

Japan is heading for more financial trouble. This time, it is not the country's big private banks that are the problem. The vast expense of bailing them out, however, is exposing far bigger strains in Japan's public financial system.

The issue here is not so much the ballooning central government budget deficit, although this in itself is alarming (see chart). The real menace comes from "hidden" government liabilities arising from the far from transparent finances of local governments and quasi-public institutions.

The web of public finance in Japan is complex, opaque and huge. The officially announced central government "budget", for example, is projected to be ¥36,000bn in fiscal 1999. But the Fiscal Investment and Loan Programme, an arm of the Ministry of Finance, spends a similar amount each year on government-directed projects. The FILP does not need central government money to do so: it can tap the ¥400,000bn pool of funds in postal savings and pension funds.

The Trust Fund Bureau, part of the FILP, buys a large chunk of Japanese government bonds (creating the unusual situation where government institutions are buying the government's own debt so extensively that they almost control the long-term interest rate).

Meanwhile, the local governments have the ability to raise funds independently of central government and have their own big spending projects, which help support a host of quasi-public institutions. The spending of local governments is mostly not incorporated in central government accounts.

These different channels of spending intersect and prop each other up: FILP loans, for example, are given to local governments which may pass them on to quasi-public institutions, which may then buy government bonds. And until recently, few outside observers worried about how this "recycling" worked, or where liabilities lay. After all, funds

seemed plentiful to Japanese investors. And western investment banks were often reluctant to prod too deeply into "off balance sheet" liabilities, since public institutions were key clients. But as debt levels surge, alarm bells are ringing. And investors are discovering that it is very unclear how much debt is guaranteed by the central government.

The ministry says the ratio of total debt to gross domestic product will be 120 per cent next year for the entire system (and around 70 per cent for the central government).

But Moody's, the US credit rating agency, argues that "hidden" FILP losses could amount to at least another 10 per cent of GDP because it has lent money to wasteful projects with low returns. If the quasi-public sector projects and the ¥60,000bn cost of banking reforms are included, total government debt could reach 200 per cent of GDP in five years, economists say.

The government retorts that net debt is still the smallest among the Group of Seven leading industrial countries, since the country has huge assets. But the health of many of these national "assets" is questionable as they form part of the FILP system.

Although some officials privately suggest the government "guarantee" for some liabilities might be renegotiated, the effect of this would be to erode confidence in Japan's financial system.

There are already signs

that some key players are becoming nervous about accepting more liabilities. The FILP, for example, recently announced it would stop buying Japanese government bonds because its own funds are set to shrink rapidly as savers withdraw money from the postal savings system because of falling deposit rates.

Politicians are urging the Bank of Japan to buy the government bonds refused by the FILP. But the central bank is not playing along. The bank is also dragging its feet over providing funds for banking reforms because it suspects, perhaps correctly, that it would be pouring money into a black hole.

The ministry of finance has quietly suggested that regional banks should buy bonds to fund bank reform instead. But regional banks are reluctant. They are also fending off requests from local governments to buy their own bonds. And some regional banks are furious because the local governments are refusing to service the debts of quasi-public projects.

To complicate matters further, regional governments want the FILP to restructure their debts. FILP officials are so irritated they are quietly threatening to cut back emergency credits to ailing regional governments.

Will this create a crisis? Not immediately. After all, the government kept the lid on the "open secret" of its banking sector problems for seven years. It can probably contain the public financial

system problems for equally long. And for every sign of revolt, there is another sign of cohesion. The Bank of Japan, for example, has recently been bullied into buying more corporate bonds, as opposed to government bonds - in direct contrast to its avowed desire to "clean up its balance sheet".

But the pressures on this fiscal pack of cards are rising. The central government debt is publicly surging. A swathe of semi-public regional projects have been collapsing. A handful of local governments privately admit they are close to bankruptcy.

Most importantly, some of the brightest bureaucrats acknowledge that the entire system is unsustainable. Indeed, some reformers are muttering that it may be "useful" to let a few local governments go bankrupt, or unveil some "surprises" at FILP, to prod politicians into action. After all, they point out, it took the collapse of large banks and brokers in 1997 - and the ensuing market "turmoil" - to create the consensus behind serious banking reform.

Quite how the markets would react to the "shock" of a local government bankruptcy or a public institution's default is anyone's guess. And when such shocks might emerge is unclear.

But the parallels with the banking crisis earlier this decade are striking. Japan's financial turmoil could soon be heading for a new chapter.

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FINANCIAL TIMES

No FT, no comment.



## COMMENT &amp; ANALYSIS

## Yielding to the attraction of safe investments

Fear of inflation is receding and government bonds are regaining their historic equitable relationship with shares, says Edward Luce

## FINANCIAL TIMES

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Monday February 1 1999

## Oasis of prosperity

At the height of last year's international financial crisis, Alan Greenspan, chairman of the US Federal Reserve, warned that the US could not remain an "oasis of prosperity" in a world economy experiencing severe and growing strains. But it did: 1998 marked another remarkable year in the US's remarkable eight-year expansion. Members of the Federal Open Market Committee have a right to be pleased when they meet this week. But Mr Greenspan, for one, will be far from relaxed.

The Federal Reserve has delivered growth with low inflation and low unemployment. In the last three months of 1998, growth exceeded almost all expectations. The annualised increase of 5.6 per cent was the highest rate for two years. For the year as a whole, growth was 3.9 per cent - exactly the same as in 1997. The slowdown in Europe is more pronounced. Japanese policymakers are unable to restore demand in their creaking economy. The US has so far shrugged off the international downturn.

At the same time, in part due to imported deflation, US inflation remains at a 40-year low, while unemployment is below 5 per cent. The FOMC appears to have discovered the secret of economic alchemy. Most forecasts are for growth of around 2 per cent in 1999. This implies a significant slowdown, but would still mean another exceptional year.

The US economy has proved

the doomayers wrong before, and may again. However, there are significant risks on the downside, not least because growth has been supported by a highly unstable cycle of increased household spending and business investment, fuelled by an overvalued stock market.

Mr Greenspan finds himself in a tricky situation. His warnings about asset price inflation, of "irrational exuberance" as long ago as 1996 - and of the "monstrous nature" of the rebound in equities after last summer's correction last month - have not been heeded. But he says the FOMC will not raise interest rates to prick the bubble. With price increases nowhere to be seen, even with wage growth picking up there is little case for higher rates to curb inflation. With such strong growth, there is certainly no case for cutting.

Thus, the FOMC is likely to leave interest rates unchanged. It must then hope that households cut back consumption only gradually as the growth in asset prices slows. In 1998, household savings were close to zero. This decline in savings has been accompanied by what looks like an equally unsustainable increase in the current account deficit.

The danger is that the virtuous circle of increasing stock market gains leading to household spending could be thrown into reverse, drying up the oasis and leading to a drought.

## Peace push

The international community has taken a high-risk gamble over Kosovo. The major powers in the Contact Group have peremptorily summoned the warring parties to start peace talks in France by the end of this week. The Contact Group is demanding that Serbs and ethnic Albanians take no more than two weeks to settle a problem that has built up over decades. At the same time, Nato is threatening that if the violence in the Yugoslav province continues unchecked, it will bomb the Serbs and cut the Kosovo Liberation Army (KLA) off from its foreign arms supplies.

Double or quits? No, just double. If the high-pressure tactics succeed, there will be a settlement, and a strong chance that Nato countries will put ground troops into Kosovo to underpin the deal. Britain, France, Germany and Italy have made such an offer. If no one shows up at the French peace talks, and if, as would be likely, violence in Kosovo worsens - what then? Nato cannot carry out its threats without losing credibility. Equally, however, it cannot bomb the Serbs and actively deny arms to the KLA, and then just stand away. Europe and Nato cannot abandon Kosovo - stability on its southern flank is too important - any more than it could ignore Bosnia. So there is no quits.

In essence, the major powers are trying to do another Dayton,

the accord that ended the Bosnian war. It will be harder. The Bosnian war produced a weariness and an eventual balance of force. In Kosovo, the Serbs have the big guns, and believe that, without foreigners restraining them, they could roll up the KLA as an organised force. The Kosovo Albanians feel the same. Both are wrong. As Robin Cook, the UK foreign secretary, rightly observes, there is no chance of the KLA's driving Yugoslav forces right out of Kosovo, just as there is no prospect of the latter's stamping out Albanian guerrilla activity.

So both sides would be foolish not to talk, and seek a compromise. The key issues are whether Kosovo stays within Serbia or just within federal Yugoslavia, and how sweeping the review of interim autonomy should be. They could be traded off. Albanian dissatisfaction at interim autonomy could be assuaged by the promise of a referendum on change after three years.

But the international community will have to act not only as mediator of a deal, but also as monitor of its provisions and maybe military enforcer. Such involvement is slowly paying off in Bosnia, and Kosovo may need the same treatment. So the price of stability may be long-term Nato garrisons in the Balkans.

## Cold comfort

Robert Rubin, US Treasury secretary, is intelligent, experienced and humane. Yet when he addressed the World Economic Forum in Davos on Saturday, he had little concrete to offer on the great policy issue of today: reform of the international financial system. He said, in effect, that not much could - or would - be done to make the world safer. The conclusion is not that emerging market countries should turn inward. It is that their fate lies in their own hands.

The global economy is now in the second year of a financial crisis that swept through Asia and Russia and has now seized Brazil. In response, the world's most powerful countries have told the afflicted that to restore confidence, they should adopt politically unpopular policies of radical structural reform and macro-economic stringency. This is cold comfort.

Mr Rubin is no exception on this. Yet in applauding the long-run benefits of the market-based system, he recognises the instabilities inherent in financial markets. In response, Mr Rubin recommends measures to reduce the volatility of capital flows. These should, he argues, include better regulation of risk management systems, changes in bank capital standards and improved disclosure of risk. He also considers improving existing ways to deal with crises and the choice of

exchange rate regimes. Finally, he asserts the case for "strong steps to address the tremendous income inequality that is all too evident around the world - within nations and between nations."

Unfortunately, these fine aspirations have little substance. People lent to east Asia not because they discounted the risk but because they were quite unaware of it. Again, Mr Rubin casts doubt on proposals to turn the International Monetary Fund into a lender of last resort or to pre-qualify countries for emergency assistance. He may want the private sector to bear an appropriate share of the burden, but asks how this is to be done without triggering the crises everyone fears. Even on exchange rates, Mr Rubin raises the issue only to suggest that "fixed and flexible exchange rates have been successful and unsuccessful in different countries... But whatever the regime, in the final analysis, the key is sound underlying policy."

Mr Rubin is telling emerging market economies that it is up to them to avoid becoming ill and should they succumb, to make themselves better. Emerging market economies should either pursue the sound, prudent, market-oriented policies consistent with origination on the high seas of global finance - or hug the shore.

Once upon a time conventional wisdom said you should steer clear of western government bonds. In spite of their reputation for safety, the average investor in UK gilts, for example, since the late 1960s would have lost his shirt.

With inflation after the second world war often likely to outstrip the annual interest on government bonds, the odds were stacked against you. Much more sensible, therefore, to put your cash into the stock market, where share prices sometimes benefited from an occasional dose of inflation.

This world no longer exists. In spite of the long bull market in equities, bonds on many markets have outperformed stocks. Nowadays, the first - and, very often, the only - port of call for nervous investors is the nearest western government bond market. This is why yields on all western government bonds, especially on US and German government paper, plummeted to historic lows in the wake of the near-bankruptcy of Long-Term Capital Management last September.

Government bond prices also shot up (pushing yields lower) after the Asian crisis started to unfold in mid-1997 and, less dramatically, after the devaluation of the Brazilian Real earlier this month. The fear of inflation, which for so long destroyed the attractiveness of bonds, has been replaced by fear of deteriorating credit quality, deflation (falling prices) and the threat of financial contagion from the developing world.

"We are no longer living in an age where inflation is a credible threat," says Peter Ainsworth at Investec, the global asset manager. "This single fact has radically altered the relationship between bonds and shares."

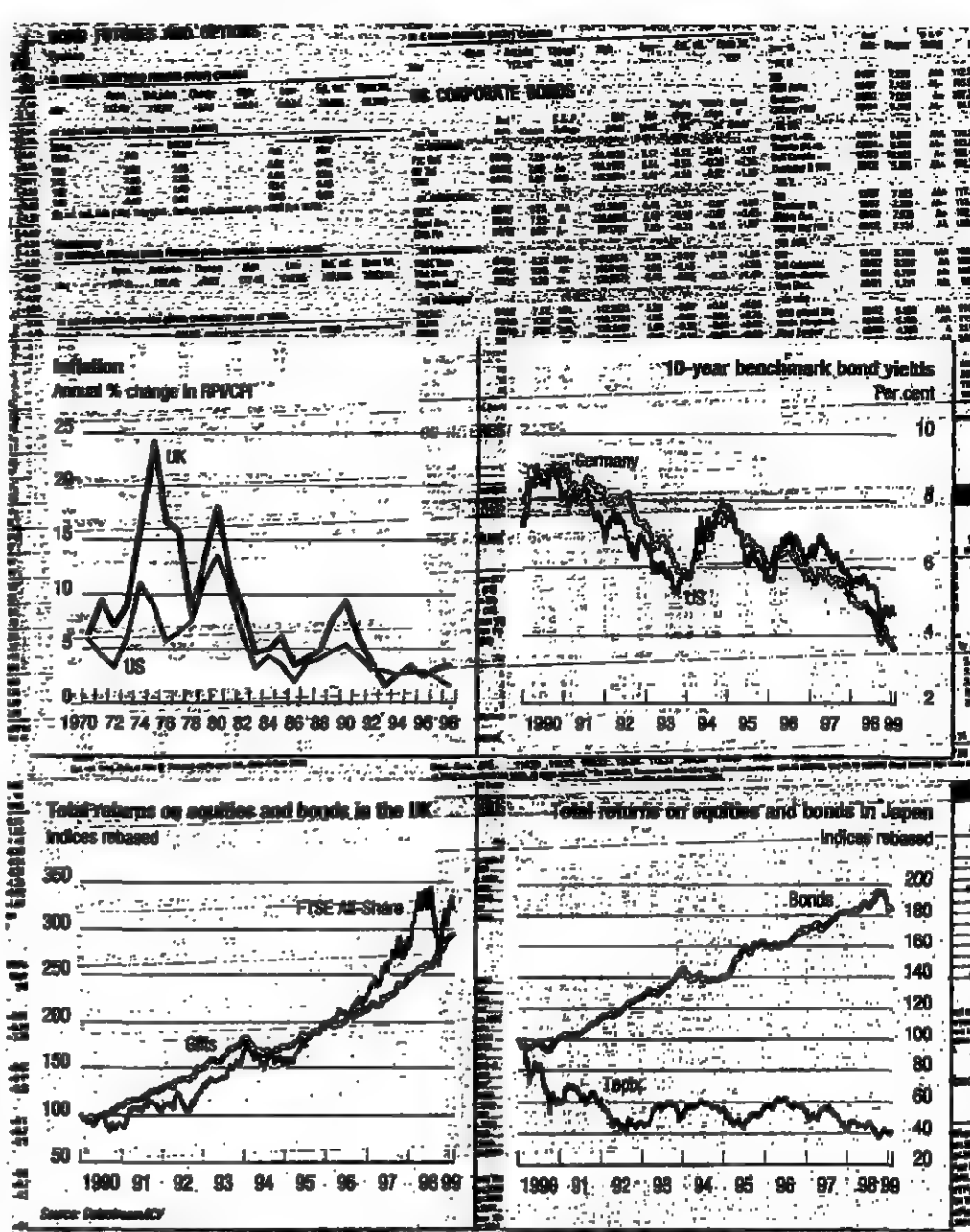
The rehabilitation of government bond markets is founded on the steady decline in inflation over the past 30 years and thus long precedes the "flight to safety" panic of the past 18 months.

If you had invested £100 in the UK gilt market in 1960, it would have grown by now to £240. For an equivalent investment in the FTSE All-Share index, your capital would now be worth £229. According to Barclays Capital, this was the first full economic cycle since the second world war where the return on bonds exceeded the return on equities.

The same trend applies to Germany - albeit less dramatically because of the superior German inflation record - where the government bond market has yielded an annual total return of more than 10 per cent a year since 1990 compared with an annual 13 per cent return for the German stock market.

The returns in Japan illustrate the point most clearly. If 1990 equals 100, Japanese government bonds (JGBs) are now approaching 200 while the Nikkei index has fallen by more than 50 per cent. But if Japan succeeded in inflating its way out of recession, holders of JGBs would be hampered.

In the US, the unprecedented bull market in equities in the



past few years means that returns on the Dow Jones Industrial Average comfortably outstrip returns in the Treasury bond market. Nevertheless, you would have more than doubled your money by now if you had put it in US Treasuries in 1990.

Contrast this with the period between 1950 and 1980. In the UK, the annual average rise in share prices was 14.2 per cent over 40 years compared with an average nominal annual yield of just 6.85 per cent on gilts. With average inflation at 6.35 per cent, the real return on gilts was more or less zero. This masks the fact that for long intervening periods - notably the inflationary spiral succeeding the oil price shock of 1973 - you would have lost money in the UK gilts market.

Again, owing to the UK's relatively poor record on inflation, the trend was less dramatic in the US and continental Europe. Indeed, it is only in the past three or four years that continental European investors have begun to buy shares in any significant quantity.

The trend, nevertheless, is broadly the same across the western world although it is most pronounced in the UK, the US and Japan.

George Magnus, chief economist at Warburg Dillon Read, says that the 19th century provides the closest parallel to what we are now witnessing.

"You could say that we have been returning to the historical average in the past few years. It was the post-war economy, with its in-built tolerance for inflation, which was the exception rather than the rule," says Mr Magnus. The figures bear this out. The

**'Bond markets are still the safest hedge against another nasty surprise'**

so-called Depression of the 1890s and 1900s was actually a period of booming economic growth in the US and the UK, and elsewhere. The term "Depression" referred to falling prices rather than falling output. Deflation, which was almost guaranteed by the international gold standard system, was the norm.

Average annual inflation in the UK was minus 1 per cent

between 1870 and 1980 and minus 0.5 per cent in the US, while average annual growth in gross domestic product was 2 per cent and 5.1 per cent respectively.

Naturally, like most of the remainder of the 19th century, it was a climate that favoured bond investors. Indeed, UK prices in 1900 were the same as they were in 1800 although they fluctuated violently around this mean. Over the century the investor received an average annual return of 4 per cent on holdings of UK consols (Treasury debt) and a little more than 4 per cent for holdings in the UK stock market.

Many economists and investors believe the world is reverting to a state where the relationship between shares and bonds is more equitable.

"Many people would argue that inflation is either dead or at the very least dormant in the industrialised world," says Kevin Adams, an economist at Barclays Capital. "The post-war world is therefore a very poor guide as to how you should invest your money."

Guinness Flight, the fund manager, is even recommending that UK investors split their money evenly between the gilt and UK stock markets. At the moment the split is roughly 80:10 in

favour of equities with the remainder in cash.

"Investors should sit up and pay attention to the fact that bonds are no longer the Cinderella investments of the past," said the fund last week. "The risk and rewards now argue for a 50:50 bond-equity investment posture."

The case is strengthened by the fact that government bond yields are generally less volatile than equity prices. At a time when the US generation of post-war "baby boomers" are approaching retirement age, fund managers say, it makes sense for them to hold a higher proportion of assets in the form of bonds rather than equities. This is because bonds provide a predictable annual annuity.

US fund managers recommend that the percentage of funds invested in the US Treasury market should roughly correspond to the age of the investor - the average UK investor would be just 10 years old on this measure.

However, economists say investors should not assume that the rally in western bond markets will necessarily continue over the next few years.

With yields on 10-year German and French government bonds having fallen to below 4 per cent and to below 5 per cent in the US and the UK, inflation would have to dip into negative territory for the bull market to continue.

Bond analysts say that the average real yield on a government bond - the difference between the nominal yield and the rate of inflation - should hover between 2 per cent and 3 per cent. With core inflation now well below 1 per cent in continental Europe and at around 2.5 per cent in the UK, this suggests that yields have little further to fall. At some stage, the market will establish a new equilibrium between inflation and bond yields.

The annual returns of between 15 per cent and 20 per cent in most European government bond markets over the past three years is thus unlikely to be repeated.

"In a way it was better to have travelled than to have arrived," says Mr Adams. "We are not going to see these types of capital gains for much longer. But the real yield on government bonds will continue to be attractive and will compete with the return available on equities."

There is, however, a more gloomy scenario. If, as seems possible, US equity prices took a sharp downturn in response to a slowdown in US corporate profits, the world would be threatened with global recession. This could tip Europe and the US into a phase of falling inflation into a period of outright deflation. In that case, Treasury and German government bond yields would again take a nosedive.

"Bond markets are still the safest hedge against another nasty surprise, whether it comes from Latin America or the US stock market," says Mr Magnus.

"But even if the world has seen the last of the financial shocks, bonds will continue to be a lucrative destination for investors."

## OBSERVER

## A nice bit of Bonn homie

No one can accuse Europe's labour and social affairs ministers of denying themselves the pleasures of life when they meet near Bonn this week for an informal pow-wow under the German EU presidency.

For there's a banquet lined up - a "country-style" supper with live folk music and a farewell lunch in the Cologne chocolate museum - to take ministers' minds off an indigestible agenda addressing the effects of the euro on the labour market.

But the ministers face one especially daunting challenge - the Cologne "carnival trinity", intended to provide an interlude of light relief between a coffin visit and one of the unavoidable "family photographs".

The bizarre trio of males acting out the roles of carnival prince, shy maiden and burly farmer are the aristocrats of the annual Cologne carnival. With appalling jokes and a gaggle of tipsy, bewigged guardsmen in tow, the trinity will give the ministers a rare insight into the carefully orchestrated politics of the Rhineland's pre-Lenten carnival. Suddenly, a chat about the euro looks strangely attractive.

## Eurogaffe

The European Commission lurches from gaffe to gaffe, the

latest perpetrated by its ramshackle press service. An unsigned note calling for a new "crisis" strategy towards the press has been inadvertently distributed on the back of a dull press release about a European Court judgment.

The memo, written in French, urges members of the spokesman's service not to become obsessed with the notion of "transparency". It explains: "A dose of cynicism - and sometimes hypocrisy - in distributing information is sometimes necessary... the desire to explain everything often invites further interrogation."

Who wrote it? Everyone suspects it's Jimmy Jamar, Edith Cresson's luckless spokesman. Poor old Commission. Even when it dabbles in the art of media manipulation, it manages to mess it up. Perhaps Peter Mandelson, the former British minister known for his spin-doctoring powers but who had to resign under a cloud, might fancy a spell in Brussels?

## Number's up

Music to the ears of "hackers". The latest research into personal computer passwords makes alarming reading for corporate information technology departments. A survey conducted in Britain by Shuttle Technology IT group shows that 15 per cent of users choose their date of birth as their password

and 49 per cent select their partner's name - or the name of their children or pets. Of the men, one in five choose their favourite football team.

Eighty per cent justified choosing simple passwords because they were afraid they would forget more complex words or number combinations. And some admitted having the same password for everything from their computer and credit cards to gaining access to bank accounts. A sort of "one-stop shop" for high-tech thieves.

## Closed Gates

It turns out that US-based chassis maker TRW enjoys the presence of one Robert Gates on its board. That's the same Robert Gates who, since May 1996, has been sitting on the board of Anglo-American components group LucasVarity, now subject to a bid from TRW.

He also happens to be a former director of the US Central Intelligence Agency and assistant to the president of the United States. A non-executive director at LucasVarity, it goes without saying that he took no part in the takeover talks that ended with the bid announcement. Corporate espionage? That's for beginners.

## Losing a fortune

The days when a few hundred million dollars could go astray at

Brazil's Central Bank without anyone noticing are gone. Last week, the bank said it had made a bit of a mistake in counting the billions of dollars that poured out of the country as investors pulled the plug on the Real.

Instead of losing \$538m on one particular day, red-faced officials admitted that "only" \$339m had left the country. It's still not clear what happened, but Altamir Lopes, head of the Central Bank's economic department, reckons someone had cancelled a major order - but didn't tell them.

When Brazil was beloved of international investors pumping in millions of dollars, this happened quite a lot. Slighs Lopes: "Nobody ever noticed because there wasn't all this excitement about the exchange rate." Tough business, banking.

## Bosch nosh

Finding famous Belgians has never been easy. But Belgo, the Belgian moustache à la frites restaurant chain which has just opened its first venue in New York, has admitted defeat.

The only genuine native artists Belgo could find to stick on its East Village walls were Brueghel, Magritte and Hieronymus Bosch. Making up the numbers are cyclist Eddy Merckx, "Muscles from Brussels" actor Jean-Claude Van Damme and singer Plastic Bertrand. So where's Hercule Poirot?

## Financial Times

## 100 years ago

The Dual Monarchy's Trade Our Paris Correspondent draws a gloomy picture of the declining foreign trade of Austria, which, he says, is suffering greatly from American competition.

Probably also the excessive industrial development of Germany and the price-cutting which naturally accompanied it has exercised a very bad effect upon the Austrian export trade. The annexation of Cuba by the United States will interfere with another market of Austria-Hungary, and altogether the trade outlook of the Dual Monarchy is far from bright.

## 50 years ago

Japanese Textile Competition Manchester, Jan. 30. The urgent need for increased output of cloth from Lancashire [England] weaving sheds, and of overcoming the bottleneck in printing of cloth, is underlined by news that Manchester shippers are having to buy Japanese printed and dyed goods to satisfy [British] Colonial markets. Previous purchases from Japan have consisted of grey cloth to be printed and finished here for export.



## THE LEX COLUMN

### Real trouble

Brazil is spiralling out of control. Despite several increases in official interest rates, the Real has lost over 40 per cent of its value in two weeks - on Friday bursting through the two-dollar level. More than \$8bn of foreign currency fled the country in January. Analysts now expect inflation to rise from virtually nothing to 30 per cent this year. In this feverish environment, destabilising rumours - such as the notion that the government is going to freeze bank accounts - are flying around.

The essential task is to limit the inevitable rise in prices to a one-off adjustment. Otherwise, Brazil will be back to hyperinflation. This means a new, transparent monetary policy, including an inflation target. It also means a tighter fiscal policy and an acceleration in the privatisation programme. The International Monetary Fund, now in heated negotiations in Brazil, should insist on this and not just dole out another large tranche of its cash.

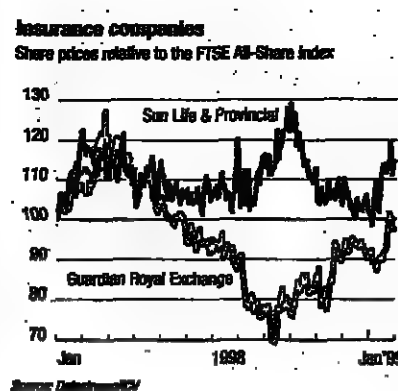
Beyond that, Brazil needs to tackle its Achilles' heel: the crippling burden of its \$320bn of short-term domestic debt. With no need any longer to defend the currency, the IMF's cash could be used both directly to cut short-term debt and as a carrot to persuade the private sector to reschedule its loans.

But even if Brazil and the IMF can put together a new blueprint, they will still have to convince the markets that it can be implemented successfully. To the extent that devaluation has scared Brazil's politicians, this may have become easier. The alternatives of hyperinflation or a forced debt restructuring are even worse.

#### US economy

The US economy's resilience is marvellous to behold. Rather than slowing down, it appears to be speeding up. Fuelled by a rebound in exports and continued strong consumer spending and business investment, fourth-quarter gross domestic product jumped by 0.8 per cent. For the year, the economy grew at 3.9 per cent, just as fast as in 1997, while inflation and unemployment remain at record lows.

How long can this strength persist? With the household savings rate at zero, consumer spending is unlikely to keep



growing at more than 4 per cent a year. The same goes for companies' capital investment, which soared 21 per cent in the fourth quarter. Both depend, at least to some extent, on further stock market gains. Merely fast share price gains at this high level, may not be enough to sustain them. That means there is more than ever riding on the continued health of US equities, which could be derailed by an external shock.

And there are plenty of potential culprits, not least a further deterioration in Brazil. The bravura performance of the US has certainly been a boon in a slowing world. But as a result, the global economy is even more vulnerable to a setback there.

#### Japanese M&A

Generations of *gaijin* (overseas) investment bankers have been through Tokyo, their prospectus of a flood of takeovers by foreigners unfulfilled. But at least their predictions look like coming true. The difference now is that the pain in the financial sector is spreading to Japan's industrial core. Heavily geared, facing negative cash-flow and deprived of capital from the banks as well as capital markets, many Japanese companies are for the first time considering foreign companies as possible rescuers. Even three years ago, it would have been unimaginable for foreigners to buy half of Nissan, the country's second biggest car maker. Now the idea barely raises a shrug.

But barriers remain. Hostile takeovers

are impossible because of the impenetrable cross-shareholding system. As for friendly deals, there is a mismatch between buyers and sellers. In drugs, many foreign groups want to buy, but targets are not under enough pressure to sell.

In retailing, there are plenty of sellers but no buyers - at least not at the prices on offer. Price is also a stumbling block because off-balance sheet debt makes valuing targets' liabilities difficult. But the most intransigent issue is management control. Japanese executives still have unrealistic expectations of controlling businesses they have mismanaged for years. The pain may have to get worse before many Japanese managers will swallow that bitter pill.

#### Axa/GRE

Guardian Royal Exchange has hardly secured a premium price by auctioning itself off. Sun Life and Provincial's offer of 388p a share works at only 1.3 times net asset value. That is even worse than the multiple of 1.3 that Gan, the tattered French insurer, achieved last year. Perhaps, though, that just runs home what a ragbag GRE was. It may have proved hard to get a sizzling auction going precisely because nobody really wanted the whole caboodle. And, indeed, GRE is now being broken up - with Liberty Mutual buying the US businesses and Axa, Sun Life's parent, taking on everything else outside the UK and the Irish Republic.

Axa/Sun Life's victory is a harsh lesson to Royal & Sun Alliance. In terms of pure industrial logic, its bid made the most sense as large duplicated costs could have been stripped out. But its credibility with investors is still suffering from its botched merger - so much so that shareholders have handicapped it in its pursuit of GRE. Now it has not only failed to win that prize, it also faces tougher competition from the new Sun Life/GRE.

Sun Life, by contrast, is riding high. That has been a huge boon. Netting out the \$1.7bn it will recoup from selling on bits of GRE it does not want, nearly 70 per cent of the \$1.9bn purchase price will be paid in highly-rated shares. Other companies should note: credibility with investors can be the decisive factor separating success from failure.

## BARSHESKY STRESSES PUSH FOR LIBERALISATION OF WORLD TRADE

### US pledges to ignore calls for limitations on imports

By Guy De Jonckheere in Davos

Charlene Barshefsky, US trade representative, yesterday pledged to stand firm against domestic pressures to erect trade barriers. "It would be playing with fire for Americans to think or move in that direction," she said in an interview at the World Economic Forum in Davos, Switzerland.

"The last thing on the face of the planet that the US should be doing or considering is artificial limitations on imports."

She said the US was determined to strengthen its commitment to multilateral trade rules and to combat growing protectionist demands by pressing ahead with a comprehensive new round of talks to liberalise world trade.

The success of a new round would depend on intensified co-operation between the US and the European Union. But the US would find it harder to phase out its unilateral trade weapons if the EU continued to defy World Trade Organisation rulings against it.

The US claims the EU has failed to comply with a WTO ruling against Europe's banana import regime. Under threat of US sanctions on EU imports, the EU has agreed to have the WTO again examine its regime, which has been modified.

Ms Barshefsky's comments reinforced the more ebullient US attitude to trade issues, spelt out on Friday by US vice-president Al Gore.

Although the US would enforce vigorously its laws against unfair trade practices, notably "dumped" imports, US president Bill Clinton's administration aimed to end unilateral use of Section 301 trade legislation that authorises sanctions against trade partners.

The EU, which says Section 301 has been used to bully other countries, is challenging the law in the WTO.

However, Ms Barshefsky said that unless the EU implemented vigorously WTO rulings against its banana import regime and its ban on hormone-treated beef, it would be hard to persuade the US congress and business to rely on the WTO.

rather than on Section 301, to settle trade disputes.

"From a strategic point of view, if Europe is concerned about US unilateralism, then it must comply with these rulings," she said.

Ms Barshefsky last week reinstated "Super 301" powers to monitor other countries' trade practices, a move attacked by Japan. But she insisted yesterday that the use of such powers would conform strictly with WTO rules.

She said she had persuaded Mr Clinton to support a trade round last month because she was concerned by rising protectionist demands in the US and by signs that other countries, notably in Latin America, were retreating from their commitment to free trade.

"I am very worried about the world sliding backward. I don't like what I see. The US has to be in a position to say, don't even think about moving backward. Our perception is that we should be moving forward," she said.

Reform differences, Page 5

## Palestinian deputies oppose May declaration of statehood

By Judy Dempsey in Jerusalem

Yassir Arafat, president of the Palestinian Authority, has been told by his legislative council to scrap plans for declaring a state on May 4 and instead start preparing for statehood by introducing institutional reforms.

During a closed session of the Palestinian Legislative Council - the de facto parliament - more than 80 per cent of deputies opposed a unilateral declaration, saying Palestine was not ready. They argued that Israel would use such a declaration as an excuse to cancel final status talks.

The decision is not binding on Mr Arafat but puts him under political pressure to abide by it.

These talks would focus on the most complex issues of the Israeli-Palestinian conflict, involving the status of Jerusalem, the future of the Jewish settlements in the West Bank, water and refugees.

They were supposed to start last

November as part of October's Wye peace accord. But the accord has been frozen for nearly two months after Benjamin Netanyahu, Israeli prime minister, refused to carry out a second handover of land to the Palestinians, claiming Mr Arafat had not co-operated on security.

The PLC session, held 10 days ago, was the first time Mr Arafat heard and, according to officials, accepted why it was unwise to declare a state unilaterally.

Deputies said neither the US nor the European Union would recognise the new state, although Washington might support a state if declared next December.

Mr Arafat, in Davos, Switzerland, to attend the World Economic Forum, will meet US president Bill Clinton in Washington this week. He has already been advised by the US and European Union to wait another few months before declaring a state. Diplomats are concerned a unilateral declaration would be untimely,

given that Israel holds elections on May 17. "Any [Israeli] party could use the declaration to its advantage," said a diplomat.

Israel, they added, could use the declaration as an excuse not to hand over any more land, making the Palestinian state an unviable patchwork of cities, towns and villages cut off from each other by settlements and the settlers' by-pass roads. Mr Netanyahu has threatened to retake Palestinian cities.

Palestinian officials, however, also believe the Palestinian Authority is far from prepared to declare a state. Those involved in the debate said reforms must first be introduced to underpin the new country.

There was, they said, no constitution that - among other things - would delineate Mr Arafat's powers. There was no separation of powers between the executive and arms of government, no independent judiciary and no checks and balances on the security forces.

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### Survey

Measuring Information Management

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## FT WEATHER GUIDE

### Europe today

The extreme cold over northern Scandinavia is abating, but there will be snow, turning to rain in the south and west, as north-west Europe begins to turn milder. Wintery showers are possible as far south as northern Italy and Greece. To the south and across the eastern Mediterranean, there will be heavy showers or thunderstorms. Scattered rain in the west will die away, and much of the Iberian peninsula will be sunny.

### Five-day forecast

North-west Europe will become milder, with rain pushing southwards only towards the end of the week. Northern Scandinavia will stay wintry, but the west and south will become mild and wet. Eastern Europe will stay cold with fog patches, but snow showers will return by the weekend. The Mediterranean will stay showery.



### TODAY'S TEMPERATURES

Location	Temp	Location	Temp
Madrid	10	Seville	10
Barcelona	10	Valencia	10
London	10	Birmingham	10
Manchester	10	Edinburgh	10
Glasgow	10	Dublin	10
Lisbon	10	Porto	10
Amsterdam	10	Brussels	10
Paris	10	Frankfurt	10
Berlin	10	Munich	10
Zurich	10	Vienna	10
Stockholm	10	Helsinki	10
Tallinn	10	Riga	10
Warsaw	10	Budapest	10
Belgrade	10	Sofia	10
Thessalonika	10	Atenas	10
Rome	10	Naples	10
Milan	10	Venice	10
Genoa	10	Palermo	10
Catania	10	Syracuse	10
Messina	10	Corfu	10
Korfu	10	Mykonos	10
Santorini	10	Crete	10
Rhodes	10	Samos	10
Chios	10	Lesbos	10
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MONDAY FEBRUARY 1 1999

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## INSIDE

### OptiMark trading system goes live

OptiMark, a revolutionary electronic share-trading system, has traded its first batch of shares. OptiMark automatically matches buyers and sellers via a patented computerised algorithm, in trading cycles performed every two to 10 minutes. The company believes that by guaranteeing investor anonymity and reducing trading costs, it will tap a vast pool of hidden trading demand. Page 18

### The prince and the film company

When Prince Muhammad Bin Bandar Abdul Aziz, one of the more obscure members of the Saudi royal family, expressed interest in buying PolyGram Filmed Entertainment last summer, no-one believed him - least of all Seagram, the Canadian entertainment and drinks company that is selling it. But it is taking him seriously now, after he placed \$50m in an escrow account as a deposit on the deal. Page 21

### Interest rates in the spotlight

Currency markets are likely to focus on prospects for further monetary easing. The Bank of England, the European Central Bank, and the US Federal Reserve are all meeting this week to decide on interest rates. The Bank of England is expected to announce a cut in rates, while the Fed and the ECB are expected to leave rates unchanged. The Brazilian Real, which plummeted to new lows last week as foreign currency continued to pour out of the economy, is likely to keep dealers edgy. Page 24

### Argentina feels the heat from Brazil

Argentina is bracing itself for the fall-out from the Brazilian devaluation of the Real. The Argentine economy was already slowing sharply through the second half of last year and many private sector analysts have reduced their 1999 growth forecasts to zero. However, the stock market has so far taken the battering of bad news better than some had feared. Page 20

### Pfandbrief sector reinvents itself

Germany's famously insular Pfandbrief market - bonds backed by mortgages and public sector loans - is re-inventing itself as a truly international market, demonstrated by Deutsche Pfandbriefbank's launch last week of a global €3bn (\$3.4bn) Pfandbrief bond. Page 18

### Jo'burg to move to electronic trading

The Johannesburg Stock Exchange is to undertake a complete overhaul of its settlement system and begin switching to paperless trading later this year to end a chronic backlog of unsettled trades and improve its reputation for transparency and efficiency. Page 20

### Tokyo market set to slip

The Tokyo stock market may be pushed down over the next few weeks as companies revise down earnings estimates and begin to unwind cross shareholdings before the March year end, says Gerry Evers, strategist at HSBC. Page 22

## FT GUIDE TO THE WEEK

— full listings Page 34

### US OPEN MARKET COMMITTEE MEETS

The Federal Reserve's open market committee begins a two-day meeting in Washington to review US interest rates tomorrow. The committee, chaired by Alan Greenspan, is not expected to raise rates, in spite of indications at the end of last week that the US economy is continuing to grow strongly.

### LAUNCH OF THE DUST COLLECTOR

Nasa is scheduled to launch its Stardust mission, the next stage of its Discovery project, on Saturday. It aims to collect a sample of comet dust and return it to earth in 2006.

### SNOW BUSINESS

The 50th snow festival opens on Thursday in Sapporo, Japan, where 20 countries compete to produce the best ice sculpture.

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# Banks cut credit to Chinese trust

Fujian investment company squeezed as foreign lenders retreat in the wake of Gitic closure

By James Harding in Fuzhou

Foreign banks have cancelled provisional credit lines worth \$100m to a leading Chinese trust and investment company, underlining the severity of the credit squeeze facing corporate China's overseas borrowers.

China's international trust and investment companies - known as Itics - have been starved of credit since the closure of Guangdong International Trust and Investment Corporation (Gitic), a provincial government-backed investment agency with debts of \$4.37bn, sent foreign banks into retreat from corporate Chinese risk.

In an interview, Xin Shimin, vice chairman of Fitic, the investment arm of the Fujian provincial government, said foreign bankers' fears of further Itic closures would make it impossible for the company, as well as any other provincial

Itics, to borrow abroad this year and possibly next. Foreign lenders have thought "the closure of Gitic was the beginning of a Chinese financial crisis... they thought all the Itics would be closed," Mr Xin said, explaining the refusal of overseas lenders to extend fresh credit in the wake of the Gitic closure in October.

But, he reassured international lenders that such concerns were misplaced. "Gitic was a special case. We are a normal case," he said, adding that both the Fujian provincial governor and Zhu Rongji, the prime minister, had signalled

# Italian ruling may limit Murdoch pay-TV soccer

By James Hiltz in Rome

The Italian government is to limit the rights of any one pay-TV organisation to broadcast Serie A soccer, in what will come as a blow to Rupert Murdoch's plans to broadcast all matches played in Italy's top league.

A decree passed by the Italian cabinet means that no organisation can own the rights to broadcast more than 60 per cent of Serie A matches from next year. Mr Murdoch's subsidiary News Corporation Europe had been bidding to acquire all rights to broadcast the football championship between 1999 and 2005.

The new decree also proposes that, if only one pay-TV company bids for the acquisition of broadcasting rights for Serie A matches, the contract can only last a maximum of three years.

Mr Murdoch had been planning to buy up to 80 per cent of Stream, Telecom Italia's pay-TV unit, using the company as the vehicle to broadcast Italian football. The new measure could now derail plans by Stream to mount an effective challenge to Telepiu, the Italian market leader in Italian pay-TV and a unit of Europe's number one pay-TV network, Canal Plus.

Analysts believe that the government's decree is mainly aimed at preventing Mr Murdoch getting a grip on the Italian TV market. But Italy's communications under-secretary, Michele Lauria, said



Target man: Gabriel Batistuta, star of Serie A side Fiorentina, celebrates a goal

the decree was "not aimed at favouring or hurting anyone". He added: "We could not let one company gain the exclusive rights in a leading sector in such a delicate phase for Italy's pay television."

The decree has triggered controversy in Italy. The Italian Soccer League has warned that the decree impedes competition and discriminates against soccer clubs, several of whose chairmen may challenge it.

Italy's opposition parties also attacked the move. "It is a mark of arrogance to use a cabinet decree for complex competition legislation in the field of sporting rights. Such a move is neither timely nor logical," said Paolo Romani, Marco Folliani and Mario Landolfi, spokesmen on communications policy for the opposition Freedom Alliance.

# Brazil plans to privatise Eletrobrás this summer

By John Bachman in São Paulo

Brazilian officials say they intend to privatise Eletrobrás, the government's electricity holding company, this summer in spite of the country's economic turmoil since the Real collapsed two weeks ago.

Ipio Borges, head of the government's BNDES development bank, which manages Brazil's privatisation programme, said he planned to start privatising the federal government's 70 per cent stake

in the three main generating assets of Eletrobrás in July. The BNDES would break these companies into nine operating units by the end of May and publish tender documents by June. He hoped to complete the sales by August.

An investment banker advising the government on the privatisation said: "These are fantastic assets and they will be sold whatever happens. If there is still [market turbulence] all the government has to do is slap a minimum price

on [the companies] and go ahead anyway." He said he expected strong international demand for these companies, even though recent privatisation auctions have not attracted great interest. Analysts fear inflation could erode revenues at utilities, because regulators only review tariffs once a year.

Mr Borges said the Eletrobrás companies would be sold with about R\$6.2bn (\$3.1bn) in debts on their balance sheets. Roughly 40 per cent of the

companies would be sold to strategic investors, who would hold most of the voting stock, and 30 per cent would be sold in the market. The remaining 30 per cent of the companies is already traded in Brazilian stock markets.

The Eletrobrás transactions will probably be among the largest of several state and federal privatisations planned for this year which officials hope will raise about \$30bn.

The largest of the three Eletrobrás units, CHESF, which

covers the less developed north-east, will be divided into three transmission units and one generating company. Furnas, which supplies the prosperous south-eastern region, will be split into two new generating companies and one transmission company. Eletrobrás operates in the remote northern region and its generating and transmission activities will each be lived off into a single unit.

Lex, Page 14



PAUL ABRAHAMS  
GLOBAL INVESTOR

# Managers behaving badly

International investors expecting an end to Tokyo's nine-year bear market have had a frustrating 12 months. Since January last year, the Topix index of all first section shares on the Tokyo stock exchange has, in dollar terms, underperformed the S&P Composite by 30 per cent and the FTSE Eurotop 300 by 13 per cent. In local terms, the Topix has basically been static, while the yield remains a paltry 1.5 per cent. It is not an impressive return for foreign investors in the world's second largest economy.

Such a performance should be no surprise. After all, since 1991 when foreigners became net buyers of the Japanese market, they have invested a cumulative ¥25,390bn (\$227.5bn). Over the same period, the Topix has fallen 35 per cent. Nevertheless, there remain optimists who believe the market is undervalued.

However, on a price-earnings basis - and I suppose there are still investors using such criteria - the market looks, on the contrary, overvalued. On a trailing basis, the Topix is trading at 17.3 times earnings. Stripping out the financials - after all, those Japanese banks are in a mess so they should not be included - the market is trading at about 60 times earnings, which hardly appears a bargain. And most international brokers are predicting earnings will fall over the next 18 months. HSBC Securities forecasts pre-tax profits excluding exceptional gains among non-financials will

plunge 35 per cent this fiscal year, and 18 per cent next year.

True, cash flow valuations appear more generous. If depreciation is added back in, the market is trading at about 12 times cash flow. Assuming that at some point depreciation falls sharply, the market, in theory, should benefit from the additional cash generated either through higher dividends or share buy-backs.

But this argument is based on erroneous assumptions. Firstly, depreciation is unlikely to fall fast any time soon. Although four consecutive quarters of negative economic growth have resulted in high inventories and plunging output, Japanese companies continue to overinvest. In Japan, purchases of new equipment and plant still account for about 14 per cent of GDP. In the US, where the economy is probably near its peak this cycle, the equivalent is 9 per cent.

The problem is that Japanese companies just cannot rid themselves of the unfortunate habit of investing in non-economic projects that destroy value. Even if they stopped overinvesting, there is so little commitment to shareholder value that increasing the dividend or buying back shares in large quantities is simply not on the agenda. The most persuasive valuation method looks to be price-to-book. The market is trading at about 1.7 times book value. The argument goes that

the book value of assets such as land acquired during the 1960s and 1970s does not reflect true value, even after the property crash.

There are two problems. First, most of these assets are not realisable. In the industrial sector, there is no market for the sites of steel plants and petrochemical complexes. If Japanese groups tried to realise their commercial sites on any scale, the additional supply would ensure that property prices plummeted. Second, although many operating assets may, in theory, be undervalued on the balance sheet, the ability of incumbent management to generate returns on them is minimal.

Japanese stocks will look better value only when Japanese companies are better managed. The list of groups paying attention to investors, restructuring portfolios, cutting costs and investing in projects with positive net present values is short. It includes Sony, Takeda, Kao, and Hoya. The problem is that they are not cheap and, respectively, foreigners own 45 per cent, 23 per cent, 23 per cent and 19 per cent already.

In Japan, there is no method of replacing bad managers, no matter how incompetent. Shareholder activism is a sad joke and the system of cross-shareholdings prevents hostile takeovers. Until there is a transformation in Japanese managers' priorities, there is little chance of a sustained rally.

Paul Abrahams@ft.com

Who's helping the world's largest corporations transform the way they manage risk and control?

Deloitte Touche Tohmatsu

answer is

Deloitte Touche Tohmatsu



## COMPANIES &amp; FINANCE

INVESTMENT VENTURE WITH SERCO TO BID FOR SERVICES SUCH AS LONDON UNDERGROUND AND AIR TRAFFIC CONTROL

## Nomura sets up £1bn infrastructure fund

By Arkady Ostrovsky

Nomura International, the European arm of the Japanese investment bank, has set up a £1bn infrastructure fund with Serco, the UK engineering company, to bid for public infrastructure projects.

The Serco Nomura Infrastructure Fund is the latest addition to Nomura's Principal Finance Group, which specialises in financing

acquisitions. Nomura said the fund - which will focus on public-private partnerships - has been set up to bid for services such as London Underground and Air Traffic Control, should the government decide to privatise them.

Nomura would provide the funding for a bid while Serco would run the project.

PFG has financed the acquisitions of the Ministry of Defence housing business,

of Thorn, a consumer goods rental company, William Hill's 1,500 betting shops and more than 6,000 pubs.

Nomura would usually keep an acquisition for between five and seven years before flotation or resale.

"Nomura will underwrite the financial risk of taking on large infrastructure projects," said Guy Hands, managing director of Nomura International's Principal

Finance Group, who started the business.

"This fund will combine financial resources with Serco's operational expertise. There is an international trend towards outsourcing facilities management."

Serco, an international systems engineering group, runs services such as London's Docklands Light Railway (DLR), the UK's four-minute warning defence systems, and Australia's

Great Southern Railway.

"Our presence in the Asia Pacific region coincides with a clear desire by federal and state governments to develop their own public-private partnerships in a similar vein to the UK," said Richard White, the chief executive of Serco.

The PFG, which has pioneered securitisation business in London, is one of Nomura's most profitable, aggressive and high-profile

international business.

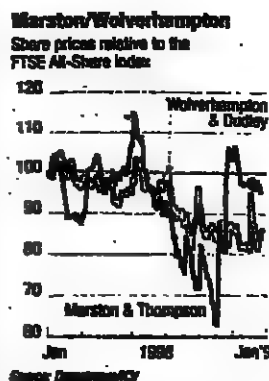
The aim of the PFG is to take much of the potential benefit of a successful take-over or privatisation, while passing the risks to outside investors.

Nomura's standard model is to make an acquisition and switch the assets into a separate holding company, which issues short-term bonds to refinance the purchase. The assets are effectively turned into securities.

## COMMENT

## Marston/Wolverhampton

Investors in Marston, Thompson and Evershed will be staring into their pints for inspiration as Thursday's closing date approaches for Wolverhampton & Dudley's £250m bid. They have been treated to contrasting management strategies and to a rare "Pacman" defence involving Marston bidding for W&D. Both sides have put considerable amounts of cash on the table, but not enough to offer a clean exit from these underperforming companies. In weighing up the two managements, W&D deserves the most credit for its handling of a traditional pub portfolio. Marston's bosses are more comfortable talking about retail brands - such as their tiny Pitcher & Piano chain - than about their hundreds of established pubs. This looks out of step with concern about over-expansion of these pubs. It also underplays the resilience of tenancies in more difficult times. On the brewing side, Marston has rightly questioned whether a regional company needs three sites. But if W&D fails to make decent returns, it can steal Marston's ideas. Investors left with a stake in an enlarged W&D might expect 3000 operating profits of about £100m, interest cover of three times and earnings per share of 60p-70p - an undemanding multiple of seven. This looks less risky than Marston's plan to take on more debt, close breweries and sell most of the pubs. Radical, but this management seems too keen on starting from somewhere else.



## Competition policy

Stephen Byers is living up to his advance billing as potentially as pro-enterprise a trade and industry secretary as his predecessor, Peter Mandelson. He may not have made a final decision on removing government from the day-to-day business of vetting takeovers, but that is the way he is heading. And a healthy move it would be. As with setting interest rates - before that job was passed to the Bank of England - when ministers meddle with mergers political considerations can too easily trump what is best for the economy. There are some caveats, notably the need for the government to retain oversight of defence deals. But Mr Byers is being too protective by suggesting ministers should also be involved in newspapers deals. It is hard to think of a sector where party politics play a greater role.

## GM not actively pursuing Nissan

By Richard Waters in New York

General Motors is not actively pursuing a takeover of Nissan and has no plans to top Ford Motor's offer for Volvo, according to Richard Wagoner, the US automaker's president and chief operating officer.

His comments, which will be broadcast in an interview with a BBC radio programme today, appear to douse some of the more heated speculation that has erupted in recent weeks about GM entering bidding wars for both automakers.

Asked whether GM would consider buying Nissan or a European company, Mr Wagoner said: "We have not given any serious consideration to that and I wouldn't anticipate that kind of move on our part."

Despite his comments, GM executives have indicated that international acquisitions could come to play a bigger part in the US company's attempts to expand in Asia. In an interview with the Financial Times recently, Jack Smith, chairman, said that such acquisitions would have been unlikely two years ago, but that the Asian crisis may have created opportunities to buy local producers.

The US company's push into the region was more likely to rely on its existing links with Suzuki and Isuzu, said Mr Wagoner. "I guess it would be inappropriate for me to rule out other things happening, but I have to tell you honestly, that there's not anything at all in any serious state of discussions or negotiations."

In an effort to boost the performance of its existing operations, meanwhile, GM has set a far more demanding set of targets for its top executives. These include tying executive pay more closely to the performance of the company and its stock price, and setting more ambitious profit goals.

The initiative marks GM's latest efforts to revitalise a management culture that has failed to deliver the sort of improvements that were hoped for when independent directors forced a shake-up of top management six years ago.

## UK groups play the role of targets in cut-throat consolidation

Andrew Bolger investigates the developments behind the French insurer Axa's negotiations to add GRE to its portfolio

The acquisition of Guardian Royal Exchange by Axa, the French insurance group, could both continue the process of cross-border consolidation sweeping the European insurance industry and sharpen competition in the cut-throat British general insurance market.

Axa, which vies with Allianz of Germany to be Europe's biggest insurer, says the launch of the euro has strengthened its desire to bring its European businesses together to create a single identity.

Claude Bebeur, chairman, says: "Our domestic market is no longer France. It is really the whole European market."

Axa already controls a UK composite insurer, Sun Life and Provincial Holdings, which is mainly in the life insurance and pensions sector.

However, the French group has made it clear that it wanted to expand its UK presence and did not share the market's hostility to general insurance, covering motors and property. This has been suffering recently from overcapacity and the entry of cheaper direct-sales operations, resulting in weak

premiums and underwriting losses. Although Axa would be unable to take as many costs or jobs out of GRE as a British rival such as Royal & Sun Alliance, it is confident it can improve the group's general insurance underwriting, which has deteriorated as it struggled to maintain market share.

A man who would take on a leading role in sorting out GRE's general insurance business is Andy Homer, chief executive of Axa Insurance, Sun Life and Provincial's general insurance subsidiary.

He was poached last year from his position as head of the London insurance market operations of CGU, the composite insurer formed by the merger of Commercial Union and General Accident.

Mr Homer, said then that he was joining a company that was aware of the importance of global branding and prepared to back its ambitions with financial clout.

Axa confirmed its brand-building intentions last summer with its announcement that it would spend \$40m over four years as the new commercial sponsor of the FA Cup, a deal that would raise its profile in the UK

and bring its name in front of the worldwide audience that watches the FA Cup final.

When Mark Wood, chief executive of Sun Life and Provincial, last month announced Mr Homer's promotion he said: "Andy has made an immediate impact on our property and casualty insurance business since his appointment as chief executive of Axa Insurance in the summer, and his appointment to the board means that we will be able to benefit from his strategic thinking across the whole of our group in the UK."

Regardless of how Axa fares with GRE, the bidding war for one of the venerable names in British insurance has thrown a harsh light on its domestic competitors.

When, following an approach by Axa, GRE said in November that it would consider offers for all or parts of its business, a variety of big insurers expressed interest, including CGU, Germany's Allianz, and Allied Zurich, the product of last year's merger between Zurich Group of Switzerland and the financial services arm of BAT Industries.

However, when the bidding came to a climax this



Claude Bebeur: group's domestic market is 'really whole European market'

Shirley Carr

weekend, there were only three serious bids on the table and only one of those was from a British company: Royal & Sun Alliance.

Royal & Sun's own offer faltered because the GRE board were dubious about the shares element of its shares and cash offer. Robert Mendelsohn, an American,

was appointed chief executive a year ago after the

merged group's cumbersome board structure proved untenable, but the market was clearly nervous about whether the company could digest another sizeable acquisition. Royal & Sun's shares had already fallen 5 per cent and GRE feared that they would fall further if a deal was announced.

The outcome suggests that UK companies are worth more to European companies seeking to build transnational operations than they are to their domestic competitors, even though they all want to reduce the British industry's overcapacity and rebuild premiums.

The European insurance industry is clearly shrinking but, so far, UK companies are playing the roles of targets.

## Barclays to cut £300m costs on retail operations

By Thorold Barier

Barclays, one of the UK's largest high street banks, is hoping to cut costs in its retail banking operations by more than £300m in a restructuring.

The savings - in a drive headed by John Varley, the retail financial services division's chief executive - will come from removing duplication in areas such as marketing and human resources, and are likely to lead to hundreds of job losses among its 60,000 staff over the next 18 months.

The retail banking operation, which is the most profitable area for Barclays, was reorganised on January 1 into two areas, catering for the mass market and wealth-

ier customers. This replaces the old structure based around different products such as current accounts and savings accounts. Each was a separate business unit, with its own management structure and separate relationship with its customers.

Opportunities for cost cutting are especially significant in areas such as marketing, which employs about 300, human resources and back office transaction processing. There were no details of exactly where the losses would fall.

The review of costs, with the help of a "plethora of consultants", has just started and concrete results are not expected for some months. The moves are

likely to be accompanied by attempts to reinvigorate the Barclays brand.

The bank is talking to advertising agencies to run a new campaign to promote the Barclays corporate brand, instead of its traditional focus on advertising each product individually.

It is also looking at ways of giving a "fresh look" to its blue logo, which has not changed for thirty years. The bank is testing a prototype branch in Stockport, which opened in November, and has a range of new facilities, including PC and telephone banking.

Investors are expected to welcome the changes. Barclays' shares have fallen from a high of almost £20 last year to £13.80 on Friday.

## Traders ponder legal bid over Griffin collapse

By Vincent Boland

A group of independent traders on London's futures and options market will consider this week whether to take legal action to recover DM5m (£1.8m) relating to the collapse of Griffin Trading, a derivatives firm shut by UK regulators before Christmas.

The legal move is seen as the last chance the locals have to recover all their money from Griffin. It was shut down when John Park, an independent trader who used the firm to clear his trades, incurred losses of \$6.2m investing in futures contracts on German government bonds.

Locals are seeking the return of DM5m from Messrs Pierson Frankfurt, the bank

used by Griffin to clear transactions carried out on Eurex, the German/Swiss derivatives market where Mr Park made his losses.

The money was transferred to the bank to meet a margin call on Mr Park's failed transactions. Locals insist it belonged to them and not Griffin, and should not have been used to meet the call.

Finbarr O'Connell, Griffin's liquidator, said he was "assessing whether there is a claim against Messrs Pierson or any other party". It is believed any legal move would hinge on that assessment. The bank could not be reached for comment. About 50 locals who trade for themselves on the London International Financial Futures

and Options Exchange have had their livelihoods threatened since Griffin collapsed.

Their accounts with the firm were frozen by the Securities and Futures Authority, the regulator, and so far only about 10 of them have been able to raise new capital to continue trading.

Each trader is understood to have between \$5,000 and \$100,000 tied up in Griffin. They were told they would get half of their frozen money back within two months. But it is believed they could get all their money back if they secured the DM5m. "We have had favourable advice from our German lawyers," said Hugh Bryant, a partner at Williamson & Horrocks, the City law firm acting for the group.

## 1998: the first step to progress

An increase in gross operating margin from 11.9% to 14.5%  
An improvement in net result of 1,233 million euros

## Strong resistance to economic pressures

The decrease in business volume in the second half of the year had a negative impact on sales (-2.2%) but prices remained stable (-0.2%) which demonstrates less cyclicality in Rhodia's businesses.

## A 1.9% increase in EBITDA

The improvement in the EBITDA is due to lower price of raw materials and productivity measures implemented in Rhodia's plants. In order to meet its objectives rapidly, Rhodia has launched further productivity measures. A provision of 85 million euros was made in 1998 of which 60 million euros were allocated to site closures. These extraordinary items will result in recurring annualized savings of 45 million euros.

## Healthier financial structure

An increase in capital of 2.2 billion euros in 1998 enabled the company to reduce debt from 3,404 million euros in 1997 to 1,136 million euros on December 31, 1998. This debt reduction will enable the company to achieve savings in financial costs of 75 million euros per year as from 1999. The debt/equity ratio which was negative in 1997, improved to 52% at the end of the year.

## Focus on specialty chemicals

Rhodia continued to focus on less cyclical activities with higher added value by completing 16 divestitures in 1998, representing 430 million euros in sales. In particular, the Group sold all its polyester interests in Europe as well as the first stages of polyester in Brazil. In parallel, Rhodia has reinforced its position in strategic businesses.

## First dividend payment: 30% of net income

At the next Board meeting, a proposal will be made to pay dividends totaling 35 million euros, representing 30% of net income, as previously indicated to shareholders. Should the proposal be approved at the shareholders' General Meeting to be held on April 15, 1999 in La Défense, the dividend per share could be fixed at 0.30 euro, including tax credit.

## Accelerated change and continued growth in 1999

Despite a weak economic environment that will no doubt continue during the beginning of the year, Rhodia intends to produce further significant results in 1999. A certain number of decisions taken in 1998 will automatically have a positive effect on the net income for 1999 (provisions, improvement in margins due to the divestiture of less profitable businesses and reductions in financial costs). Furthermore, certain company-wide measures have been launched to accelerate these changes: "Purchasing" program; revision of innovation process; reduction in fixed costs; improvement in industrial performance; development of a results-oriented culture. The progress made in 1998 and improvements forecast for 1999 will ensure Rhodia's recovery and its capacity to create value for its shareholders.

## 1998 results: key figures

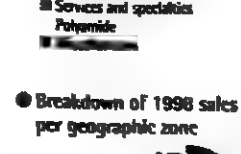
	1997	1998	Change	1998
ME	ME	%	ME	
Net sales*	5,703	5,537	-3	36,323
EBITDA*	681	801	+18	5,256
Net result	-1,117	116	+	762
Earnings per share (F and €)	-6.42	0.67	+	4.37

\* On a comparable basis, excluding extraordinary items.

## Breakdown of 1998 sales per division



## Breakdown of 1998 sales per geographic zone



## Net result



## EBITDA



**Rhodia**

The best is yet to come

صناعات البتروكيمياويات



## AUTOMOTIVE INDUSTRY SWEDISH GROUP LOOKS BEYOND SCANIA FOR ACQUISITION

## Volvo woos other truck companies

By Tim Surt in Stockholm

Volvo, the Swedish automotive group which last week agreed to sell its car division to Ford of the US for \$4.5bn (\$6.4bn) is in intensive talks with at least two heavy truck manufacturers about an acquisition that could double the size of its commercial vehicle operations.

Volvo also made a separate approach to Scania, the Swedish heavy truck manufacturer that is controlled by investor, the main holding company for Sweden's Wallenberg business empire.

"Discussions are being pursued at the highest levels," said one person familiar with the negotiations. Bankers close to Volvo have emphasised that the company has other options in commercial vehicles, apart from Scania. Of the other potential bid targets, it is thought that Paccar of the

US and MAN of Germany rank highly for Volvo. Navistar, another independent US manufacturer, has also been named as a possible partner.

However, analysts noted that Seattle-based Paccar, believed to be controlled by the secretive Figgott family, had been on the acquisition - rather than disposal - trail and expressed surprise that the company might be up for sale. By contrast, MAN shares surged to \$237.50 on Friday on speculation that MAN Nutzfahrzeuge, MAN's trucks subsidiary, might be on the block. However, the group, which also manufactures industrial and printing equipment, has consistently denied any plans to spin off its commercial vehicles.

Both Paccar and Navistar declined to comment. Volvo is known to have approached MAN in the past, while a deal with Paccar would enhance its US presence. Paccar's Daimler subsidiary would also provide a



Expansion drive: Volvo could double its commercial vehicles arm

second European leg for Volvo. "We will do acquisitions and we intend to be aggressive to use our financial strength to develop our commercial side," Volvo said.

Talks with rival truck manufacturers have intensified after indications that investor would seek \$5350-

\$K375 a share for its near 45 per cent stake in Scania. Shares in the Swedish heavy truck group closed at \$K228.50 on Friday, valuing the company at \$K47.5bn. Volvo earlier this month paid \$K5.2bn for a 13 per cent stake in Scania, prompting accusations from investor that it was preparing a

hostile bid. The Wallenberg group has also made clear it was in talks with other manufacturers about an alternative alliance.

"Consolidation is required in the truck industry but everyone wants to be buyers rather than sellers," said John Lawson, automotive analyst at Salomon Smith Barney in London. "There will be a clear correlation between price and availability." Other industry analysts warned that Volvo's position would not necessarily be strengthened by the proceeds from its car division disposal.

"They are seen as rather anxious buyers and that is not the easiest bargaining position to start from," said one analyst in Stockholm. Following the disposal of the car division, Volvo's truck arm will become its single largest business. It is thought to have contributed profits last year of \$K2.9bn on sales of \$K2.9bn.

## Paribas, SocGen 'talking on link'

By Samer Iskander in Paris

Société Générale and Paribas, the French banks, have revived talks over a possible link, according to Le Figaro, the daily newspaper.

The news comes as speculation is intensifying that a long-awaited rationalisation of the country's banking industry is imminent. Paribas, which is also believed to have been approached - unsuccessfully - by Banque Nationale de Paris, confirmed it was in "discussions with several French banking groups". SocGen could not be reached at the weekend.

Analysts believe Paribas's successful niche strategy in investment banking would complement the activities of larger retail banks such as SocGen and BNP, which have failed to challenge the dominance of large US investment banks.

Paribas is also France's largest participant in the consumer lending market, an activity that offers potential synergies with the banks' branch networks.

Paribas's future has been the subject of speculation ever since Axia, the insurance company that is its largest shareholder, pressed the bank's management late last year to make its strategy "more convincing". Rumours have associated it with BNP, in which Axia is also a large shareholder.

The choice of a partner for Paribas could also decide the future shareholding structure of Crédit Lyonnais, the bank due to be privatised in coming weeks after a state-backed rescue.

Axia, SocGen, BNP and Paribas have all expressed interest in taking stakes of more than 5 per cent in Crédit Lyonnais. Paribas, which sold its retail banking operation, Crédit du Nord, to SocGen last year, has an arrangement to sell some of its products through Crédit Lyonnais's branch network.

This month, Paribas announced a reorganisation of its activities around four core businesses: proprietary investments, investment banking, retail financial services and asset management. It also said it was aiming to expand internationally.

## Texas group buys Victoria gas assets

By Gwen Robinson in Melbourne

Texas Utilities, the US power company, stepped up its involvement in Australia's deregulating power market yesterday with the \$A1.6bn (\$US1bn) purchase of natural gas distribution and retailing facilities from the state government of Victoria, in south-eastern Australia.

The sale price was well above analysts' expectations of \$A1.1bn-\$A1.2bn and reflected the high level of interest among foreign power groups in Victoria's sweeping power privatisation programme.

Victoria is the first state to auction its electric power and gas assets, and with yesterday's sale it has now raised more than \$A24bn from energy sell-offs.

Analysts said the size of the deal could trigger a general reassessment of the valuation of Australian utilities. It demonstrated that bidders, mostly from the US and UK, were prepared to pay top prices for Australian utilities, said one Sydney-based analyst.

More significantly, it would encourage other governments to proceed with privatisation plans. Among them, the Western Australian state government is considering the sale of its gas utility, AlintaGas, later this year, probably for \$A850m-\$A1.1bn. The South Australian, Australian Capital Territory and New South Wales state governments are also trying to win political approval to sell various energy businesses.

After final bids closed on Friday, the Victoria government announced yesterday that Texas Utilities Australia beat four other bidders for Western/Kinetik Energy, a gas distribution and retail company which services the state's western half.

The government said the utility combines the Western gas distribution network with the Kinetik Energy gas retailing business.

Western/Kinetik was the first of Victoria's three gas utilities to be sold. It followed the state's sale of electricity distributors in the mid-1990s and the \$A1.7bn purchase last November by

American Electric Power, of the US, of CidPower, a Victorian electricity distributor, from Entergy Corp, another US company. Texas paid nearly \$2.1bn in late 1995 for Eastern Energy, one of five Victorian electricity distributors sold.

Under its gas privatisation programme, Victoria planned to sell the remaining two distribution and retailing gas utilities, Multi-net Gas/Ikon Energy and Stratus Networks/Energy 21, as well as the state's main gas pipeline network, Transmission Pipelines Australia, before the end of May, officials said. Analysts estimate the gas sell-off would earn the government about \$A6bn in total.

For Texas, the acquisition will create the first "multi-energy company with coverage across the state", the government said. It also helped realise the government's aim of creating an integrated energy market, with retailers providing a variety of energy products and services, officials said.

Bob Shaphard, Texas managing director, said the company had given Victoria a "full and fair price". "We're able to bring to bear the scale of the operations of Texas Utilities and our experience in operating gas systems... we think we can deliver a more cost-effective product," he said. Mr Shaphard said Texas would be interested in a public float of its Australian assets in the longer term, once it "demonstrated their worth to the market".

Texas is also building an underground gas storage facility in the state, and accelerated construction last September, after an explosion at Victoria's only gas and oil processing plant crippled gas supplies.

The government said the sale of Western/Kinetik would result in lower gas prices and improved services, and was unlikely to lead to job losses. Proceeds from the sale of gas assets would go to reducing state debt. But state opposition leaders criticised the sale, warning it would lead to higher prices and do nothing to improve reliability of gas supply.

## Oneximbank near to bond default

By Andrew Jack in Moscow and Arkady Oetrovsky in London

Oneximbank, one of Russia's most prominent financial groups, is on the verge of technically defaulting on the servicing of an international bond, in a new indication of the escalating crisis facing the country's businesses.

The bank, the principal vehicle of the business "oligarch" Vladimir Potanin, is expected to fail to meet its obligation to pay a \$12m coupon that falls due today on a \$55m bond issue.

However, the group is already at an advanced stage of discussions with its creditors, and is expected to make an announcement during the day on its plans to restructure the interest payments in time to meet a two-week grace period.

Failure to honour the debt would represent a new step in the financing difficulties facing Russian companies. Most of the country's businesses - as well as the Russian Federation itself - have so far avoided defaults on international bonds.

Talks with Oneximbank's creditors follow the compe-

ny's failure to meet the coupon payments on a floating-rate note last week, which triggered a 14-day grace period in which Oneximbank has to pay the coupon.

Stephen O'Sullivan, an analyst at the Moscow-based United Financial Group, said a default on the bond would be a worse signal for the markets than simply being unable to pay a floating-rate note coupon. "It would raise the possibility of other defaults on the part of corporate issuers," he said.

The news comes as concern is growing about Russia's ability to service its own sovereign debt. It has already missed payments on restructured Soviet-era commercial debt but the Russian finance ministry has attempted to draw a sharp distinction between Soviet-era debt and post-1992 debt issued by the Russian Federation, which it claims is "unrecoverable".

Oneximbank, whose total debt is estimated at \$35m, has already shifted its bank assets last year into a new entity called Rosbank, which has also received assets from rival banks Most and Menatep.

## JDS Uniphase set to raise pace of change

By Scott Morrison in Toronto

The recently announced merger between fibre optic component manufacturers JDS Fitel and Uniphase is likely to accelerate development and reduce costs in the telecommunications systems manufacturing industry, say analysts.

The merged company, to be called JDS Uniphase, would be able to provide manufacturers such as Nortel Networks and Lucent Technologies with integrated modules, rather than separate components, which they could quickly input into their systems.

Analysts said that would cut development time and lower costs in the rapidly evolving telecoms systems industry, a sector in which product cycles are being significantly compressed and time-to-market is critical. They predicted Uniphase's hi-tech competitors would be forced to merge in a bid to keep pace.

Anthony Muller, Uniphase's chief financial officer, said the two companies have virtually no product

overlap, but essentially serve the same customers.

Canada's JDS Fitel produces wavelength division multiplexers, which separate light beams and enable fibre optic cable strands to carry a greater amount of data.

Uniphase, its US merger partner, produces components such as pump lasers, which provide optical power for amplifying devices used to boost fibre optic signals across long distances.

Systems manufacturers, which have until now been forced to combine these separate components into their networks, have been asking their suppliers to provide integrated modules to simplify and accelerate the production cycle.

The merger will enable systems manufacturers to procure their fibre optic components from a single supplier.

"If we did not merge, we would have to find another way to meet the module demands of our customers," said Mr Muller.

Enabling systems manufacturers to market products

more quickly would allow telecoms carriers such as MCI WorldCom and Sprint to develop more advanced networks with greater capacity in less time, said Mr Muller. Josef Strauss, JDS Fitel's chief executive, said he expected the combined company would deliver its first component module within six months of the merger.

Analysts said the two companies already supply manufacturers such as Tyco, Siemens and Pitel.

JDS Uniphase would concentrate on research and manufacturing products for the submarine, long-haul, metropolitan and cable television fibre optic markets.

The optical components market, thought to be worth US\$2.5bn in 1998, is expected to grow to almost US\$7bn by 2004, according to Ryan Hanckin Kent, a US telecoms industry analyst firm.

The "merger of equals" would create one of the world's largest and most advanced manufacturers of fibre optic components with a market capitalisation of US\$6.1bn at the time the deal was announced.

## REPORT FOR THE THIRD QUARTER ENDED 31 DECEMBER 1998

## RANDGOLD

Incorporated in Jersey, Channel Islands, Reg. no. 62686

## SYAMA MINE

- Cash profit achieved.
- Gold production exceeds 20 000 oz for December.
- Cash operating costs reduced to US\$224/oz for December.

## MORILA PROJECT

- Morila deposit doubles in size and is still open.
- Measured and indicated resources now 3.2 million oz.

## CORPORATE

- Parent company loan converted to equity, US\$13.4 million cash raised.

Randgold Resources has 33 million shares issued as at 31 December 1998

## ABRIDGED CONSOLIDATED INCOME STATEMENT

US \$000	Unaudited Quarter ended 31 December 1998	Audited Quarter ended 30 September 1998
Gold sales	13 761	11 835
Total cash costs	13 027	13 098
Cash profit/(loss)	734	(263)
Depreciation	4 732	4 966
Exploration expenditure	4 453	4 806
Other expenses	1 191	516
Loss on ordinary activities before tax	(16 422)	(19 288)
Chances produced	47 077	41 242
Cash operating cost (before tax)	259	276

## ABRIDGED CONSOLIDATED BALANCE SHEET

	44 694	43 092
Net current assets		
Property, plant and equipment - net	131 957	131 154
Other long-term assets	12 548	11 391
	189 199	185 597
Long term loans	25 077	45 215
Interest of outside shareholders	7 146	7 185
Shareholders' equity	156 866	133 197
	189 199	185 597

## COMMENTS

The second phase of the Syama expansion and cost reduction programme was successfully commenced. For the quarter, Syama produced 47 077 ounces at a cash operating cost of US\$259/oz and generated a cash profit of US\$734 000. Production of 20 077 ounces was achieved in December and cash operating costs reduced to US\$224/oz for this month. Production of 270 000 ounces at US\$211/oz is forecast for calendar 1999.

At Morila, the resource estimate has been revised to incorporate the latest drilling results and a new:

San Deposit Resources	Tons (M)	Gold (g/t)	Concent (Pct)
Measured	13.17	4.39	2.07
Indicated	8.56	4.11	1.13
Inferred	2.73	4.21	1.05
Total	24.46	4.48	1.25

Preliminary pit modelling indicates that most of the measured and indicated resources will convert to proven and probable reserves. The study is well open to the north. Additional demand drilling is planned during the next quarter for the northern extensions. The full feasibility study will be completed in March 1999.

1 February 1999

Full details of the results for the quarter and the latest resource estimates are available on our web-site [www.randgold.com](http://www.randgold.com) or contact Kathy de Plessis at Telephone (2711) 728-4701, Telex (2711) 728-2547, e-mail [kathy@randgold.com](mailto:kathy@randgold.com)

LVMH  
MOËT HENNESSY, LOUIS VUITTON1998 SALES : 6.9 BILLION EUROS  
(FRF 45.5 BILLION)

The LVMH - MOËT HENNESSY LOUIS VUITTON Group today announced consolidated net sales of 6.9 billion Euros (FRF 45.5 billion), a fall of 5% over the same period in 1997. After a difficult third quarter showing a 13% fall in sales, the fourth quarter was more positive (+2%) and the

Group posted record sales figures in December, up 7% over the same period last year. Factors contributing to these results are the successful launch of new products together with the effects of a stronger Yen and the first signs that the Asian situation is now beginning to stabilise.

Broken down by business activity, sales developed as follows:

Figures in millions	1997	1998	% change
Champagne and Wines	1,134	7,440	+11%
Cognac and Spirits	762	5,000	+13%
Fashion and Leather Goods	1,837	12,053	0%
Fragrances and Cosmetics	1,406	9,220	-3%
Selective Retailing	2,170	14,235	-17%
Other Activities	14	80	+20%
TOTAL	7,323	48,095	-5%

The performance of the Wines and Spirits group was mixed in Champagne, sales volumes grew significantly. Volumes are up 5.9% to reach a total of 58 million bottles. Overall, the year was marked by strong demand outstripping supply in certain markets. The fourth quarter showed an increase of 7% after a steady third quarter. In France, sales volumes remained stable but they increased in international markets, notably in the US and in Japan. In Cognac, net sales decreased by 13% due to lower volumes and sales mix. The fall was limited to only 2% in the fourth quarter. If demand in Japan fell, this was compensated by the steady growth in demand in the US. This year saw the launch of a number of new products namely *Single Distilleries*, *X.O Grande Champagne*, *Pure White*, *Jimmy* and *No-Gomme*.

Sales of the Fashion and Leather Goods group were stable in 1998. Sales in Louis Vuitton Malletier were nearly stable over the year (-1%) in spite of a 3% fall in the exchange rate and the lower level of tourism in Asia. All other areas including Japan showed growth in volume. Market share of Louis Vuitton has increased in 1998. It is worth noting that the excellent performance during the fourth quarter (+6%), and the record figures for December showing an increase of over 13%, have eliminated the fall recorded at the end of the third quarter. The Louis Vuitton range of products has been broadened following the arrival of Marc Jacobs as designer, the launch of new products ready to wear, shoes and *Monogram Vernis*, and the opening of "Global Stores" (Champs-Élysées, New Bond Street, Soho and Osaka). The Louis Vuitton brand has been further reinforced thanks to a creative advertising campaign.

Sales of the Fragrances and Cosmetics group were down about 3%. This fall, essentially attributable to Parfums Christian Dior, was due to the lower levels of tourism in Asia and to the completion of our plan to cease sales to parallel

networks. The successes of *Hypnotic Poison* at Dior, it at Givenchy and *Corrélan* at Guerlain have all contributed to growth in Fragrances. In Cosmetics, we have seen excellent performances by the new lipstick *Plastic Shine* and the body care range *Capture Essentiel* at Dior. 1998 was marked by the creation of the Fragrances and Cosmetics group which has enabled a reorganisation of our international distribution and the realisation of synergies between the four perfume houses.

The fall in net sales for *Selective Retailing* is entirely due to the Asian crisis. DFS sales are down 34%. The level of Japanese tourists and their average spending levels are both well below those seen in 1997. The Group was able to stabilise this negative trend during the last few months of the year owing to the strengthening of the Yen/\$ exchange rate. In order to reduce substantially the break-even point a major restructuring plan has been implemented, which led to the closure of certain shops and to the relinquishing of certain airport concessions. Meanwhile, a parallel investment programme into "Galleries" has gone ahead, together with the establishment of Sephora in the United States involving the opening of 14 new stores.

Sephora accelerated its growth in Europe with 1998 figures showing a growth of nearly 24% over the same period last year. The acquisition of Marie-Anne Godard reinforces Sephora's position as market leader in France.

Sales for *Le Bon Marché* which was integrated into the group in June 1998, grew almost 2%. The new "Théâtre de la Beauté" got off to an excellent start.

Media sales grew by more than 20% with a significant increase in distribution and advertising billings.

The full year results for the LVMH Group will be released on March 18th. They will show a decrease over the 1997 level.

Internet : [www.lvmh.com](http://www.lvmh.com)



## COMPANIES &amp; FINANCE

INTERNATIONAL BONDS THE FAMOUSLY INSULAR MARKET IS RE-INVENTING ITSELF FOR GLOBAL INVESTORS

## Pfandbrief sector looks abroad

By Thomas Marchant

Germany's famously insular Pfandbrief market - bonds backed by mortgages and public sector loans - is re-inventing itself as a truly international market, demonstrated by DePfa Bank's launch last week of a global €3bn (\$3.4bn) Pfandbrief bond.

Pfandbriefe, which are used to refinance domestic mortgages and public projects, may be issued only by authorised publicly owned German banks, and they therefore enjoy high creditworthiness.

Issuance of jumbo Pfandbriefe - the first genuinely liquid issues to appeal to non-German investors - last month alone stood at nearly €12bn, and the volume of such issues is forecast to rise by 35 to 50 per cent this year to about €300bn.

In volume terms, the total Pfandbrief market, including jumbo issues, amounts to the nearly \$1,000bn and is the largest non-government bond sector in the euro-zone countries.

Traditionally illiquid but safe - there has not been a default on Pfandbriefe this century - the sector comprises thousands of small, individually structured issues enjoying little recognition beyond their narrow home market.

For two centuries the market has been inward looking but now it is being forced to look abroad.

The impetus for change in the sector came in the mid-1980s, as the most liquid Pfandbriefe began to be converted into a global player.

"We had a market that was not open to global investors, who simply did not have a picture of the indus-

try," said Ralf Buschmann at Deutsche Bank. "We had to prepare this market for the future."

Underlying these concerns were the mounting economic costs of German reunification, as banks were lending heavily to finance massive housing and infrastructure work.

The relaunch of the sector started with the first jumbo Pfandbrief issue in May 1995. This was a standardised product that nonetheless offered a break with the past: it had liquidity, size and transparency similar to other agency issues, and is now regarded as the market driver.

This year, the average issue size has reached €2bn. Total outstanding issuance has risen to €214bn and it is estimated that 20 to 25 per cent of jumbo Pfandbriefe are now bought by foreign investors.

"The jumbo Pfandbrief market is 7 per cent of the euro-zone market. You can't afford to ignore it if you want to be in the big league," according to Derek Brawn, vice-president credit research, at Morgan Stanley Dean Witter.

The euro has transformed the Pfandbrief from a "legal concept" into a distinct European asset class, said Mr Brawn.

"Many other European countries are now trying to replicate the product but with a 200-year head start, the Germans are way ahead," he said.

Several micro factors have helped: More international banks take part in syndicates selling jumbo Pfandbriefe, which helps distribution; the increasing standardisation of the market has forced the adoption of practices common to the

international bond market, such as book-building; and finally, the emergence of "global" Pfandbriefe, which comply with US Securities and Exchange Commission rules on private placements and therefore open up the market to US, and also Japanese, investors.

DePfa's ground-breaking global issues in 1996 illustrate the point: some 19 per cent of the paper went to US investors; 28 per cent to investors in Asia and the rest to European investors. Only 13 per cent was sold in Germany.

At the heart of the change has been the need to improve liquidity. "This is a sector where all that can be done to enhance liquidity is being done," said Mr Brawn.

Since January, for example, Pfandbriefe have enjoyed Tier One category status with the European Central Bank.

This means that investors may use them as security for repo activities as an alternative to government agency paper.

Moreover, Pfandbriefe, which are quasi-agency paper, are a cheaper way of holding triple A paper for use as collateral in repo activities.

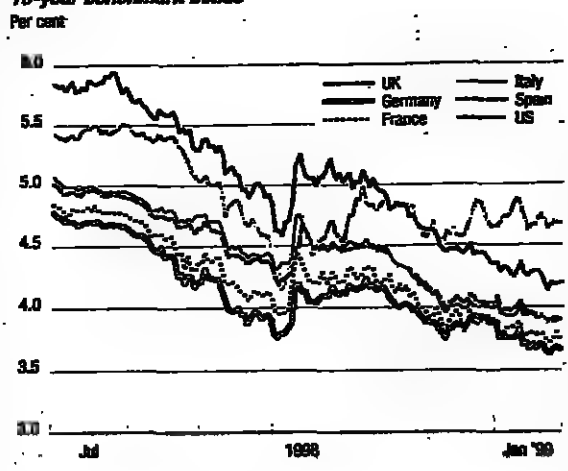
Jumbos have also emerged as a safe option during recent "flight to safety" crises.

"During last autumn's crisis jumbo Pfandbriefe outperformed other credit sectors in the euro-zone and compared with US agency bonds, exhibited less spread volatility," said Mr Brawn.

The spread between 10-year Pfandbriefe and equivalent German bunds is presently 35 to 40 basis points, but there is room for narrowing.

"We see potential for

10-year benchmark bonds



spread tightening of between 10 and 15 basis points this year, meaning they will outperform German bunds," said Mr Brawn.

Ten-year Dutch bonds trade to yield 11 basis points over German bunds and Italian paper trades at a yield spread of about 25 basis points, compared with a spread of about 35 to 40 basis points on typical Pfandbriefe.

Bankers say there will be increasing polarisation between jumbo issuers and the domestically focused minnows.

Within the jumbo sector, the big liquid issuers that borrow across various maturities and issue on a calendar programme will command a liquidity premium of at least 2 to 3 basis points.

Growth will also be fuelled by repackaging smaller, traditionally structured, short-dated Pfandbriefe that are nearing maturity into jumbos.

The benefit will be cheaper

all-in costs, liquidity and borrower recognition. One reason why this is not happening now is because smaller issuers do not enjoy "borrower recognition".

This refinancing will accelerate because small Pfandbriefe issues must be redenominated into euros by 2002 (only jumbo issues were redenominated on January 4 this year).

The one disappointment in the experiment to internationalise the sector has been the flop of the Pfandbrief futures contract traded on Eurex, the German-Swiss derivatives market.

Launched just before Russia defaulted, the contract was a casualty of timing. "During the subsequent flight to quality the futures instrument was abandoned. It just did not have a track record and it was too focused on specific (shorter-dated) maturities when the trend now is for long-dated paper," said Mr Brawn.

The benefit will be cheaper

## Biotech companies set to list in Europe

By Virginia Marshall

Three biotechnology companies are planning to come to European markets in offerings that together aim to raise about \$100m.

The move is a sign that investor appetite for the sector on the continent may be returning after difficult market conditions late last year. Analysts also said the planned flotations were a sign of a growing trend among continental biotech concerns to become public companies.

"We expect a lot more to follow suit," said Jane Fiskin at Dresdner Kleinwort Benson. "The continent is mirroring what happened in the UK five years ago when a lot of companies floated."

The best known of the three companies going public is MorphoSys of Germany, which aims to list on Frankfurt's Neuer Markt next month after postponing a planned flotation last autumn.

The Munich-based company is to offer 1m shares, equivalent to an 80 per cent capital increase. It is expected to be valued at DM140m-DM185m (£71.5m-£94.5m, \$81.2m-\$107.4m). The lead manager is Deutsche Bank.

MorphoSys, which had sales of DM5.9m last year (compared with DM4.9m the previous year), uses a technique to speed up the discovery of new drugs. It is researching drugs for cancer by seeking to optimise the properties of proteins and peptides, especially as antibodies. Its partners include Pharmacia & Upjohn and Boehringer Mannheim.

The two other companies are Biovector Therapeutics, a French company that is coming to the Nouveau Marché, and Phytara, which is listing on Easdaq, the Brussels-based market for growth stocks, and in Copenhagen.

Biovector, which is already majority-owned by institutional investors including 3i and UBS, aims to raise up to €30.5m through the issue of 5m shares. The price range has been set at €5.2 to €6.1, for a valuation of about \$100m, and the offering is being managed by Feriès, Dresdner Bank and J.P. Morgan.

Phytara, which is developing treatments for infectious fungal diseases, is based in the US but has subsidiaries in the UK and Denmark, and also has a large proportion of Danish shareholders. The company, which recently signed a co-operation deal with Eli Lilly of the US, hopes to raise \$20m-€40m in an offering managed by Société Générale, for a market value of about \$140m post-financing.

Biovector, a drug delivery company, had considered floating in London, which has more biotech stocks than any other European exchange. But valuations in the UK sector have plunged in the past year after management and other problems at several companies.

## NEWS DIGEST

## CEREALS

## Kellogg ends difficult year with 'disappointing' result

Kellogg, the US cereals company, ended a difficult year with earnings it said were disappointing, although they were in line with reduced market expectations. It also said that after new management appointments, cost-cutting and plans to boost its convenience foods side, it was optimistic about returning to growth in 1999. But in spite of the upbeat stance, its shares fell \$1.4 on Friday to \$40.94.

The Michigan-based group made after-tax profits of \$46.8m in the final quarter, almost three times the \$14.6m of a year earlier, but the figures were muddled by restructuring charges, and the company said excluding unusual items, net earnings fell from \$158.5m to \$93.1m. Net sales were down 1.1 per cent to \$1.56bn.

Kellogg, which now accounts for about 32 per cent of the US cereals market, has been struggling to combat the decline in its core products - as consumer breakfast habits have changed - and competition from local rival General Mills and cheaper own-label cereals.

Part of its suggested solution lies in new products, and an expansion of its convenience foods business. It has also been making restructuring moves, in an effort to cut costs. However, after a number of profit warnings last year, analysts are still waiting to see whether the strategy can deliver a turnaround in performance. Nikki Tait, Chicago

## INVESTMENT BANKING

## Dresdner launches AAA vehicle

Germany's Dresdner Bank will today launch a structured investment company aimed at giving its institutional clients the higher yields of a diversified AA average rated credit portfolio through an AAA rated vehicle.

K2 Corporation, which will be managed by Dresdner's London branch, will start with \$100m of assets but aims to grow to \$15bn, according to Alan Harley, co-head of the bank's structured credit investment team.

One of only a handful of such companies, it intends to eliminate market risk by hedging its assets and liabilities through to their maturities. K2 is aimed at, among others, euro-zone investors who must adapt to fixed-income markets in which investing based on the credit risk of borrowers has replaced currency and interest rate factors.

K2's portfolio will be financed by the issuance of medium-term notes and commercial paper that have been rated AAA by Moody's and Standard & Poor's. It achieves the higher rating by over-collateralisation.

Mr Harley helped set up the first such structured investment company, Alpha Finance Corporation, for Citibank in 1988. He and his co-head, Paul Clarke, joined Dresdner from Citibank in 1997. K2 is intended to be "evergreen", with an 11-year life extended each year. Clay Harris

## Deutsche Bank official resigns

Edward Carter, president and chief executive officer of Deutsche Bank Securities, the German bank's US securities subsidiary and head of investment banking for the Americas, has resigned. According to people close to the situation, Mr Carter had been sidelined by the appointment late last year of Yves de Baillmann and Mayo Shattuck to head the investment banking business of Deutsche Bank following its merger with Bankers Trust, which was agreed last November.

Mr Carter joined Deutsche in May 1997, from Merrill Lynch. At that time Deutsche was attempting to build its US business organically. The new product heads for the merged US operation are expected to be announced as early as this week. Tracy Corrigan, New York

## MOBILE TELEPHONY

## Price war starts in Singapore

Singapore's mobile telephone providers started a price war on Friday that led regulatory authorities to call for a surrender at the weekend. The mobile unit of national operator Singapore Telecommunications (SingTel) announced two separate discount packages on Friday. The second was prompted by a reduction in prices by competitor MobileOne (M1), in response to SingTel's initial move.

First, SingTel said it was cutting prices to save customers S\$90m (US\$53.2m) annually. Later, M1, a consortium including Kapsel Group, Singapore Press Holdings, Cable and Wireless and Hongkong Telecom, offered new off-peak rates and other benefits. Later still, SingTel came back with a programme, cutting monthly subscription charges that would save customers S\$75m annually.

The Telecommunications Authority of Singapore said M1's application for a price cut package had yet to be approved. It also said the monthly subscription discounts announced by SingTel had been approved only until March 31 2000, and directed SingTel to make that clear in its advertisements. Sheila McNulty, Kuala Lumpur

## OptiMark trading system goes live

By Daniel Bögl

OptiMark, a revolutionary electronic share-trading system, has finally gone live, trading its first batch of shares in 3M, one of the US's bellweather industrial stocks.

"We have been working towards this day for four years. We have designed an incredibly robust and technically highly complex system. Now it is time to see it work," said Bill Lupien, co-founder and chairman of OptiMark.

Described as the biggest innovation in securities markets since the introduction of the ticker tape, OptiMark automatically matches buyers and sellers via a patented computerised algorithm, in trading cycles performed every two to 10 minutes.

The company believes by guaranteeing investors' anonymity and reducing their trading costs, it will tap a vast pool of hidden trading demand. Currently, US stock markets trade between 1.3bn to 1.5bn shares a day, Mr Lupien thinks that could rise to as much as 3bn-5bn.

However, OptiMark's launch, originally planned for October, had been delayed by resistance from several US stock markets that fear a loss of business. A compromise with the Intermarket Trading System, which groups together all US exchanges, was finally reached last week.

So far, 114 securities firms are ready and certified to trade via OptiMark. Of these, 80 are money managers and 34 brokers and dealers. OptiMark has trained more than 2,500 traders on its system.

Having started with just a single stock, OptiMark is planning to add four more - Eastman Kodak, Black & Decker, Campbell Soup and AlliedSignal - this week and then keep adding with a target of 100 by February 11. Eventually, it plans to trade all 3,600 listed US equities, as well as options, futures and potentially European shares. Set up under the wing of California's Pacific Stock Exchange, the company has a co-operation agreement with Nasdaq that will start in the autumn.

## OSAKA GAS CO., LTD.

NOTICE to the holders of the

£150,000,000

8.125 per cent. Bonds due 2003

of

OSAKA GAS CO., LTD.

Notice is hereby given that The Daiwa Bank, Limited, London Branch at its office at Fifth Floor, 4 Broadgate, London EC2M 2QS will resign from its role of Fiscal Agent, Principal Paying Agent, Replacement Agent and agent to receive service of process in relation to the above issue from 5th March, 1999.

From 5th March, 1999 The Sumitomo Bank, Limited at its office at Temple Court, 11 Queen Victoria Street, London EC4N 4TA will be appointed to the roles of Fiscal Agent, Principal Paying Agent, Replacement Agent and agent to receive service of process in relation to the above issue.

The Daiwa Bank, Limited  
Fifth Floor, 4 Broadgate  
London EC2M 2QS

Dated: 1st February, 1999

## Important news for mortgage customers.

## Interest Rate Change

The rate of interest for new and existing mortgage customers (in appropriate cases the basic rate) will decrease by 0.25% with effect from 1st February 1999. This decrease will be taken into account when calculating new monthly payments at the next review in April 2000.

Barclays Bank, Limited  
Registered Office: 1 Churchill Square, London EC2M 3QS  
Lombard Street, London EC3M 3HT  
Member of the Mortgage and Finance Association

We are pleased to announce the following appointments

## DALLAS

Joe Colonneta

Principal

## LONDON

Lyndon Lea

Principal

Philippe von Stauffenberg

Principal



HICKS, MUSE, TATE &amp; FURST

January 1999

Dallas New York Mexico City Buenos Aires London

THE OFFER (AS DEFINED BELOW) MADE BY THIS ANNOUNCEMENT (THE "OFFER NOTICE") IS NOT BEING MADE TO AND OFFERS WILL NOT BE ACCEPTED FROM OR ON BEHALF OF HOLDERS OF BONDS (AS DEFINED BELOW) ("BONDHOLDERS") IN ANY JURISDICTION IN WHICH THE MAKING OR ACCEPTANCE THEREOF WOULD NOT BE IN COMPLIANCE WITH THE LAWS OF SUCH JURISDICTION.

THIS NOTICE IS IMPORTANT AND REQUIRES THE IMMEDIATE ATTENTION OF BONDHOLDERS WHO ARE IN ANY DOUBT AS TO THE ACTION THEY SHOULD TAKE OR AS TO THE CONSEQUENCES FOR THEM OF ANY PARTICULAR ACTION SHOULD CONSULT THEIR STOCKBROKER, LAWYER, ACCOUNTANT OR OTHER PROFESSIONAL ADVISER WITHOUT DELAY.

THIS OFFER NOTICE SHALL NOT CONSTITUTE AN OFFER TO SELL OR OFFER FOR SALE OF ANY SECURITIES AS SUCH TERMS ARE DEFINED IN SECTION 2 OF THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), NOR SHALL THIS OFFER NOTICE CONSTITUTE A PROSPECTUS AS SUCH TERMS ARE USED IN SECTIONS 2, 5 AND 10 OF THE SECURITIES ACT.

## Offer by

UBS AG, acting through its division Warburg Dillon Read

on behalf of

Tetron Golf and Turf plc

(Incorporated with limited liability in England and Wales with registered number 3489585)

to purchase for cash

any and all of the outstanding £43,868,085

8.684 per cent. Guaranteed Bonds Due 2008

Issued by Tetron Golf and Turf plc

and guaranteed by

Tetron Inc.

(Incorporated under the laws of the State of Delaware)

COMMON CODE: 8402558 CUSIP: 88320VAA7 ISIN: XS084025583

UBS AG, acting through its division Warburg Dillon Read ("Warburg Dillon Read") is offering on behalf of Tetron Golf and Turf plc (the "Company") to purchase for cash any and all of the Company's outstanding £43,868,085 8.684 per cent. Guaranteed Bonds due 2008 (the "Bonds") at a price per Bond (the "Purchase Price") to be determined by Warburg Dillon Read as described below, upon the terms and subject to the conditions set forth in this Offer Notice (the "Offer"). Bonds to be purchased pursuant to the Offer will be delivered to or to the order of Warburg Dillon Read through the facilities of Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear"), CedeBank or the Depository Trust Company ("DTC") on or before the Settlement Date (as defined below). Payment of the Purchase Price in respect of Bonds delivered through the facilities of Euroclear or CedeBank will be made on the Settlement Date through Euroclear or CedeBank on a delivery versus payment basis. Bonds delivered through the facilities of DTC will be required to be delivered on a free of payment basis, and payment of the Purchase Price in respect thereof will be made, subject to such delivery, on the Settlement Date by transfer to a clearing account with a bank in London specified by the relevant Bondholder, or in such other manner as may be agreed between Warburg Dillon Read and the relevant Bondholder.

To accept the Offer, Bondholders should contact Warburg Dillon Read as specified below by not later than 4.00 p.m. (London time) on any business day during the Offer Period. "Offer Period" means the period commencing on 1 February 1999 and ending on 12 February 1999 or on such later date as the Company may determine in its sole discretion, notice of which shall be given to Bondholders by publication in the Financial Times and the Luxembourg Wort and through Euroclear, CedeBank and DTC. Acceptances of the Offer shall be irrevocable and may not be withdrawn.

The Purchase Price per Bond will be an amount in sterling equal to the sum of (i) that price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards) of the principal amount of such Bond, at which the Gross Redemption Yield (as defined below) on the Bonds is equal to the Gross Redemption Yield, plus the Margin (as defined below), at or about the time the relevant Bondholder and Warburg Dillon Read agree to the sale and purchase of Bonds (the "Determination Time") of the Benchmark Bid on the basis of the middle market price of the Benchmark Bid as determined by Warburg Dillon Read at or about the Determination Time, and (ii) an amount equal to the interest that would have accrued on the principal amount of the relevant Bond, from, and including, 30 January 1999 to, but excluding, the relevant Settlement Date. Warburg Dillon Read's determination of the Purchase Price shall be final and binding.

As used in this Offer Notice, "Benchmark Bid" means the 9 per cent. Treasury Stock 2008 or, if such stock is no longer in issue at such time, such other UK Government stock as Warburg Dillon Read may determine to be the most appropriate benchmark UK Government stock for the Bonds, "Gross Redemption Yield" means a yield calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, part 1, 1978, page 18 or on such other basis as Warburg Dillon Read may determine, "Margin" means 1 per cent., "Settlement Date" means in respect of any Bonds to be purchased pursuant to the Offer, the third business day following the day on which agreement for the purchase of such Bonds is made between the relevant Bondholder and Warburg Dillon Read, and "business day" means a day (other than a Saturday or Sunday) on which banks are open generally for business in London.

If Bonds remain outstanding after the Offer, the Company may, subject to applicable law, acquire Bonds, through privately negotiated transactions, open market purchases or otherwise at any time or from time to time, upon such terms and conditions as it may determine.

All Bonds purchased by Warburg Dillon Read on behalf of the Company pursuant to the Offer will be cancelled and may not be re-issued or resold.

None of the Company, Tetron Inc., their respective directors, Warburg Dillon Read, The Law Debenture Trust Corporation P.L.C. as Trustee in relation to the Bonds or Morgan Guaranty Trust Company of New York, Brussels office, as Book-Entry Depository makes any recommendation in respect of the Offer. Bondholders must make their own decision with regard to selling Bonds pursuant to the Offer and should consult their own professional advisers.

The Offer shall be governed by, and construed in accordance with, English law. In connection with the Offer, Warburg Dillon Read is acting solely as agent of the Company. Warburg Dillon Read will have no agency, fiduciary or trust relationship with any Bondholders. Warburg Dillon Read will receive certain commissions in respect of the Offer and it and/or its affiliates and associates may have a holding of Bonds. Any Bonds held by Warburg Dillon Read will be sold to the Company pursuant to the Offer. Warburg Dillon Read and/or its affiliates and associates may have provided within the previous 12 months significant advice or investment services in relation to the Bonds or a related investment.

UBS AG, acting through its division Warburg Dillon Read

1 Finsbury Avenue

London EC2M 2PG

Attention: Nick Tudball

Telephone No: +44 171 567 4453

Attention: Piers Harris

Telephone No: +44 171 567 4456

Tetron Golf and Turf plc

1 February 1999

NO PERSON HAS BEEN AUTHORISED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFER OTHER THAN THOSE CONTAINED IN THIS OFFER NOTICE. IF GIVEN OR MADE, SUCH INFORMATION AND REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE COMPANY, TETRON INC., THEIR RESPECTIVE DIRECTORS, WARBURG DILLON READ, THE LAW DEBENTURE TRUST CORPORATION P.L.C. AS TRUSTEE IN RELATION TO THE BONDS OR MORGAN GUARANTY TRUST COMPANY OF NEW YORK, BRUSSELS OFFICE, AS BOOK-ENTRY DEPOSITORY.

Approved for the purposes of Section 57 of the Financial Services Act 1996 by UBS AG, acting through its division Warburg Dillon Read, regulated in the United Kingdom by the Securities and Futures Authority. Prices, values or income may fall against an investor's interests and the investor may get back less than he invested.

صكوك من الاهل













**Edgar Bronfman Jr. expected to accept if prince makes firm offer**

Edgar Bronfman Jr. expected to  
and distribution interests

The prince must also secure substantial working capital to persuade PFE's senior executives to stay.

**R**unning PFE could prove costlier and more complex than buying it. One problem is that Seagram has already sold its film libraries, which provided steady cashflow to balance its volatile production

As the biggest European-owned film group, PFE gave its non-US staff an unusual level of autonomy for the US-dominated film industry, and they may not wish to remain if that changes.

Similarly, Prince Muhammad may find it hard to hold on to star producers, notably Tim Bevan and Eric Fellner, responsible for *Four Wed-*

# Weak prices hit MIM and North results

**By Gwen Robinson in Sydney**

York, after the arrival last November of OTE, the public telephone operators.

Institutional investors from outside Greece hold about 20 per cent of NBG's equity. Greek state and public sector organisations control another 38 per cent, with the remainder held by domestic institutions and small investors.

NBG will launch a public offering of 2m to 3m shares abroad of the New York listing. These will include shares from a convertible bond issue held by the Greek government that matures in June and shares belonging to NBG subsidiaries.

Although the offering will reduce the Greek public sector's shareholding in NBG to about 35 per cent, there are no plans for changes in corporate governance. Greece's prime minister has traditionally taken responsibility for hiring and firing chief executives at NBG.

The second half of the group produces coal and base metals including copper, zinc and lead, and has interests in Australia, Europe and South America. MIM's headline profit was helped by a net abnormal gain of A\$37.1m from its sale of a 25 per cent stake in Norddeutsche copper-gold refinery in Germany. The group would continue to hold a 10 per cent interest in the German facility for the time being, but had signalled its intention to eventually exit Norddeutsche, said Nick Stump, chief executive.

Strong performances from the group's Robe River iron ore operations in Western Australia, its gold division and its Warman mining pump division helped earnings. The result, however, fell short of analysts' expectations, and one warned that North faced lower second-half profit on continuing low prices for uranium and base metals, and falling demand

Production shutdowns at various facilities contributed to MIM's weak first-half performance, but had assisted in the expansion of key business units. The main influence on earnings was "lower commodity prices, the lower US dollar-Australian dollar exchange rate and the early start of the oil price, which was down 24 per cent half-year on half-year," he said.

In the revised structure of the IPO, the domestic institutional and the retail tranches were scaled back in order to allow more international investors into Askar's equity base.

Domestic institutions bid 0.8 times the amount they were offered and the retail tranche was 11.8 times sub-

The international tranche, which represented 47.6 per cent of the total offer, was 18.8 times subscribed. International institutions had originally been offered 33.9 per cent of the disposal in September when Azkar was forced to pull its market debut because of financial turmoil.

The success of Azkar's IPO is likely to increase the international weighting of a swathe of medium cap Spanish companies, which are lining up for a Bolsa listing.

Commodities prices in other areas of production fell across the board, he noted. In addition to copper, he singled out declines of 17 per cent in zinc prices and 14 per cent in lead as contributing to the net loss.

Commodity contribution to MIM's results was mixed, with Alumberra, the 50 per cent-owned copper-gold mine in Argentina, exceeding production expectations after a slow start in late 1997.

Products, iron ore in particular, would be affected by negotiations with Japanese steel producers for annual contract prices.

The negotiations, due to end this week, are expected to result in substantial price reductions for iron.

North had placed more emphasis on efficiency and improving returns, but this was not likely to affect the bottom line until the second half, Mr Broomhead warned.

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*James M. Kinnear* is Managing Director, responsible for the USA and a member of the London Stock Exchange.

**The United Mexican States Floating Rate  
Privatization Notes Due 2001**

The applicable rate of interest for the period February 1, 1999, through and including May 2, 1999, to be paid on May 3, 1999, a period of 91 days, is 3.78219%. This rate is 1310/bps above the offered rate for three-month deposits in U.S. dollars which appeared on the display designated as the British Bankers' Association's Interest Settlement Rate (4.966969%) as quoted on the Dow Jones/Telerate Monitor's as Telerate Screen No. 3750 as at 11:00 A.M. (London Time) on January 28, 1999.

The above rate equates to an interest payment of USD 14.616092 per USD 1,000.00 in principal amount of Notes.


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In accordance with the terms and conditions of the Notes, the rate of interest applicable for the interest period 29th January, 1999 to 30th July, 1999 is 8.13 per cent. per annum.  
Interest payable on 30th July, 1999 per Note of H.K. \$50,000 will be H.K. \$7,076.03

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Holders of Floating Rate Notes of the above issue are hereby notified that for the interest period from 28th January, 1999 to 28th April, 1999 the following information will apply.

2. Interest Amount payable on Interest  
Payment Date: £73.20  
Per £5,000 nominal or  
£732.02  
Per £50,000 nominal

3. Interest Payment  
Date: 28th April, 1999

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Journalist

EURO PRICES

EQUITIES

Central bankers face rate cut demands

EUROPEAN OVERVIEW

By Bertrand Benoit

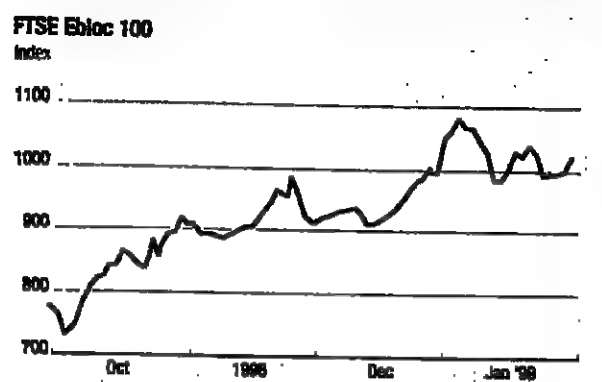
European equity markets looking for direction will have their radars locked on interest rates when central bankers review the region's monetary policy this week.

cut its key rate, currently 3 per cent. But most analysts are pricing in a cut of 25 to 50 basis points before the end of the first quarter.

managers index for the manufacturing industry, due on Monday, will be closely watched for confirmation that the country is on a deflationary slope.

majority of economists expect the monetary policy committee of the Bank of England to cut interest rate when it meets on Wednesday.

while the FTSE Eurotop 100 gained 75.42 to 2,796.59, the FTSE Eblor index of companies in the euro-zone gained 31.73 to 1,023.84.



Source: FTSE International

FTSE Actuaries Share Indices

Index	Value	Change	Yield	Vol	Div
FTSE Eurotop 100	2,796.59	+75.42	2.25	0.44	121.02
FTSE Eblor 100	1,023.84	+31.73	2.33	1.78	89.33
FTSE Eblor 200	1,023.84	+31.73	2.33	1.78	89.33
FTSE Eblor 300	1,023.84	+31.73	2.33	1.78	89.33
FTSE Eblor 400	1,023.84	+31.73	2.33	1.78	89.33
FTSE Eblor 500	1,023.84	+31.73	2.33	1.78	89.33
FTSE Eblor 600	1,023.84	+31.73	2.33	1.78	89.33
FTSE Eblor 700	1,023.84	+31.73	2.33	1.78	89.33
FTSE Eblor 800	1,023.84	+31.73	2.33	1.78	89.33
FTSE Eblor 900	1,023.84	+31.73	2.33	1.78	89.33

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

		Jan 28	Closing mid-point	Change on day	1940/41 spread	Day's mid high	Day's mid low	One month rate %PA	Three months rate %PA	One year rate %PA			
<b>Europe</b>													
Czech Rep.	(Koruna)	36.1894	+0.2579	897	-890	38.8700	36.4450	36.9824	-5.0	37.9071	-5.0	38.7140	-5.3
Denmark	(Kro)	7.4279	+0.0002	801	-800	7.4450	7.4240	7.4408	-0.5	7.4476	-0.5	7.4718	-0.5
Greece	(Drac)	321.262	+0.0002	801	-823	321.300	320.950	322.9449	-7.0	322.023	-7.0	341.0183	-7.0
France	(FF)	166.6374	+0.0002	801	-800	166.6375	166.6373	166.6375	-0.1	166.6375	-0.1	166.6375	-0.1
Germany	(DM)	1.93628	+0.0002	801	-800	1.93628	1.93628	1.93628	-0.1	1.93628	-0.1	1.93628	-0.1
Hungary	(Forint)	200.0000	+0.0002	801	-800	200.0000	200.0000	200.0000	-0.1	200.0000	-0.1	200.0000	-0.1
Ireland	(Punt)	0.787564	+0.0002	801	-800	0.787564	0.787564	0.787564	-0.1	0.787564	-0.1	0.787564	-0.1
Italy	(Lira)	2036.27	+0.0002	801	-800	2036.27	2036.27	2036.27	-0.1	2036.27	-0.1	2036.27	-0.1
Netherlands	(Guilder)	1.93628	+0.0002	801	-800	1.93628	1.93628	1.93628	-0.1	1.93628	-0.1	1.93628	-0.1
Poland	(Zloty)	4.1733	+0.0002	801	-800	4.1733	4.1733	4.1733	-0.1	4.1733	-0.1	4.1733	-0.1
Portugal	(Escudo)	200.0000	+0.0002	801	-800	200.0000	200.0000	200.0000	-0.1	200.0000	-0.1	200.0000	-0.1
Romania	(Leu)	12.246671	+0.0002	801	-800	12.246671	12.246671	12.246671	-0.1	12.246671	-0.1	12.246671	-0.1
Spain	(Peseta)	166.6374	+0.0002	801	-800	166.6374	166.6374	166.6374	-0.1	166.6374	-0.1	166.6374	-0.1
Sweden	(Krona)	4.6330	+0.0002	801	-800	4.6330	4.6330	4.6330	-0.1	4.6330	-0.1	4.6330	-0.1
Switzerland	(Sfr)	1.93628	+0.0002	801	-800	1.93628	1.93628	1.93628	-0.1	1.93628	-0.1	1.93628	-0.1
UK	(£)	0.9913	+0.0002	801	-800	0.9913	0.9913	0.9913	-0.1	0.9913	-0.1	0.9913	-0.1
<b>Asia/Pacific</b>													
Argentina	(Peso)	1.1302	+0.0002	801	-800	1.1302	1.1302	1.1302	-0.1	1.1302	-0.1	1.1302	-0.1
Australia	(Doll)	0.7315	+0.0002	801	-800	0.7315	0.7315	0.7315	-0.1	0.7315	-0.1	0.7315	-0.1
Canada	(Doll)	1.2915	+0.0002	801	-800	1.2915	1.2915	1.2915	-0.1	1.2915	-0.1	1.2915	-0.1
China	(Yuan)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
India	(Rupee)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Indonesia	(Rupiah)	166.6374	+0.0002	801	-800	166.6374	166.6374	166.6374	-0.1	166.6374	-0.1	166.6374	-0.1
Japan	(Yen)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Korea	(Won)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Malaysia	(Ringgit)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Philippines	(Peso)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Singapore	(Dollar)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
South Africa	(Rand)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Thailand	(Baht)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Taiwan	(Dollar)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Turkey	(Lira)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
UK	(£)	0.9913	+0.0002	801	-800	0.9913	0.9913	0.9913	-0.1	0.9913	-0.1	0.9913	-0.1
<b>Latin America</b>													
Brazil	(Real)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Chile	(Peso)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Colombia	(Peso)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Costa Rica	(Colon)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Cuba	(Peso)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Ecuador	(Doll)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
El Salvador	(Doll)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Honduras	(Doll)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Mexico	(Peso)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Nicaragua	(Doll)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Panama	(Doll)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Paraguay	(Guarani)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Peru	(Sol)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Uruguay	(Peso)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1
Venezuela	(Boll)	0.0000	+0.0002	801	-800	0.0000	0.0000	0.0000	-0.1	0.0000	-0.1	0.0000	-0.1



## LONDON SHARE SERVICE

	Netw	Perch chg	Wt %	Div	Comdr
					past
Mutual Shares M.	\$	3491	0	0.15	Jan 82
B.		360	1.3		
Mutual, Vanguard	F	62	51	2.78	
Raymond Exchange		319			Jan 82
Mutual Capital Co.	\$	128		5.17	Mar 82
New Zealand	\$41337	1		04.78	
Investment		24		2.5	Mar 82
MSI Assoc. Soc. Co's	\$371	74			
Org. Inc. 7113	\$371	1		00.5	
Mutual Inc.	\$	446		0.5	Jan 82
Old Mutual	\$	128		0.86	Mar 82
Mutual	\$	61		15.72	
Mutual	\$	61		7.4	Mar 82

Costa 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Interactive Investor

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مجلس القضاء الاعلى

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## Offshore Funds and Insurances

**FT MANAGED FUNDS SERVICE**

**FT MANAGED FUNDS SERVICE**

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صُكِّرَا مِنَ الْأَهْلِ



**Highs & Lows shown on a 52 week basis**

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4.74	+0.6	21.7	4.05
7.7	+0.7	5.3	1.9
1.0	+0.2	1.0	0.5
4.08	+0.8	4.7	3.32
14.25		16	10
14.85	+0.5	2.5	1.5
16.7	-2	35.1	11.5
22.9	+0.5	1.0	0.5
22.95	-1.5	20.9	26.8
18.05	+1	18.25	2.6
2.35	-0.4	0.3	2.2
2.35	-0.4	0.3	2.2
2.96	-0.6	5.25	2.6
13.5	-7.5	22.4	19
10.5	+0.4	71.5	2.5
12.5	-0.5	51.5	30.75
12.9	+15	23.5	12.25
27.75	+0.5	1.0	0.5
5.5	-15	41.5	5.7
5.85	-22	41.5	5.7
18.1	-25	23.5	12
18.1	-25	23.5	12
16.1	+1.5	11.5	11.5
90.25	-7.5	11.5	8.25
7.75	-2	13.5	7.5
11.85	+0.5	2.5	1.5
27.75	+0.5	2.5	1.5
21.5	+5	29	14.75
0.85		1.15	0.5
23.45	+1	2.5	1.5
53.3	+1.5	60.5	28.25
34.15		1.0	0.5

# Rockwell

Rockwell Collins GPS traffic management systems are giving passengers greater efficiency and convenience.

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18.3	+1	30.1	14.9
27.5	+1.6	30.5	2.6
2.46	+1.5	30.5	0.5
11	+1.5	30.5	0.5
11	+5	37.25	10.5
18.75	+5	37.25	10.5
18.75	+5	37.25	10.5
0.33	+0.2	19	0.25
17.1	+5	27.2	12.2
17.1	+5	27.2	12.2
37.5	+5	37.5	0.5
22.8	-55	27.5	22.7
22.8	-1	27.5	22.7
0.95	-3	11.65	0.5
5.05	-5	7.8	4.51
10.65	-5	31.7	5.5
18.85	-5	31.7	5.5
9	-8	31.7	15.75
18.85	+25	5.5	15
21.25	+3	31.7	6.5
78.1	+1	32.2	57.5
0.5	+5	3.25	0.5
3.25	+1	8.5	2.51
13.4	+1	14.8	0.5
13.4	+1	7.5	0.5
18.5	-3	20	2.5
3	-50	20	2.5
27.2	-5	72.7	16.25
22.5	+15	28	16.25
23.5	+75	27.2	21
30.5	0	0.5	0.5

40.05	+0.5	55.4	5.8
18.05	+0.5	60.5	7.0
1.51	+1.1	64.5	1.7
50	+0.5	65.5	1.5
10	+0.5	22.5	0.5
50	-4.6	77	20.6
10	-1.5	42.5	3.4
30	+2.5	46	20.0
50	+2.5	44.5	20.5
11.05	+0.5	51.5	6.2
25.05	+0.5	25.4	11.3
11.05	-1.1	13.0	9.5
3.48	+0.5	34.5	6.2
50	+0.5	34.5	6.2
30	-4.3	25.5	25.2
20.05	+0.5	63.5	37.3
30	+0.5	33.5	37.3
40.4	+0.4	33	1.5
30.35	+0.5	33.5	27.2
30	-1.5	27.5	27.2
50	+0.5	0.5	10.9
3.86		10.75	3

	High	Low	Yd	PW
40	49.29	18.22	2.8	4.7
50	61.50	27.15	3.8	12.8
60	73.71	36.10	4.8	20.8
70	85.92	45.05	5.8	28.8
80	98.13	54.00	6.8	36.8
90	110.34	62.95	7.8	44.8
100	122.55	71.90	8.8	52.8
110	134.76	80.85	9.8	60.8
120	146.97	89.80	10.8	68.8
130	159.18	98.75	11.8	76.8
140	171.39	107.70	12.8	84.8
150	183.60	116.65	13.8	92.8
160	195.81	125.60	14.8	100.8
170	208.02	134.55	15.8	108.8
180	220.23	143.50	16.8	116.8
190	232.44	152.45	17.8	124.8
200	244.65	161.40	18.8	132.8
210	256.86	170.35	19.8	140.8
220	269.07	179.30	20.8	148.8
230	281.28	188.25	21.8	156.8
240	293.49	197.20	22.8	164.8
250	305.70	206.15	23.8	172.8
260	317.91	215.10	24.8	180.8
270	330.12	224.05	25.8	188.8
280	342.33	233.00	26.8	196.8
290	354.54	241.95	27.8	204.8
300	366.75	250.90	28.8	212.8
310	378.96	259.85	29.8	220.8
320	391.17	268.80	30.8	228.8
330	403.38	277.75	31.8	236.8
340	415.59	286.70	32.8	244.8
350	427.80	295.65	33.8	252.8
360	440.01	304.60	34.8	260.8
370	452.22	313.55	35.8	268.8
380	464.43	322.50	36.8	276.8
390	476.64	331.45	37.8	284.8
400	488.85	340.40	38.8	292.8
410	501.06	349.35	39.8	300.8
420	513.27	358.30	40.8	308.8
430	525.48	367.25	41.8	316.8
440	537.69	376.20	42.8	324.8
450	549.90	385.15	43.8	332.8
460	562.11	394.10	44.8	340.8
470	574.32	403.05	45.8	348.8
480	586.53	412.00	46.8	356.8
490	598.74	420.95	47.8	364.8
500	610.95	429.90	48.8	372.8
510	623.16	438.85	49.8	380.8
520	635.37	447.80	50.8	388.8
530	647.58	456.75	51.8	396.8
540	659.79	465.70	52.8	404.8
550	672.00	474.65	53.8	412.8
560	684.21	483.60	54.8	420.8
570	696.42	492.55	55.8	428.8
580	708.63	501.50	56.8	436.8
590	720.84	510.45	57.8	444.8
600	733.05	519.40	58.8	452.8
610	745.26	528.35	59.8	460.8
620	757.47	537.30	60.8	468.8
630	769.68	546.25	61.8	476.8
640	781.89	555.20	62.8	484.8
650	794.10	564.15	63.8	492.8
660	806.31	573.10	64.8	500.8
670	818.52	582.05	65.8	508.8
680	830.73	591.00	66.8	516.8
690	842.94	600.95	67.8	524.8
700	855.15	610.90	68.8	532.8

[illegible]

10	10.10	3.20	5.3	23.7
9	2.55	5.80	5.5	7.8
8	1.15	5.80	5.5	7.8
7	20.25	8.50	1.7	5.2
6	47.25	2.7	2.1	10.7
5	31.30	18.50	8.8	8.4
4	1.15	5.80	5.5	7.8
3	34	1.8	4.5	6.0
2	57	21.10	10.8	8.2
1	36	12.50	7.7	6.5
	26.50	12.50	8.7	9.8
	-8.12	4.50		
	83	37.50	1.8	8.1
	1.15	5.80	5.5	7.8
	175	72	3.7	14.9
	102	10.75	11.8	3.8
	32.50	10	18.7	11.8
	1.15	5.80	5.5	7.8
	64.50	5.80	8.8	1.2
	39	10	7.0	
	28	5.30	4.9	11.2

Source: FT Information  
 All figures are as quoted on the  
 day are usually last traded  
 bid and ask, if available  
 bid, ask for scrap issues, as far  
 as U.S. \$

Source: U.S. Steel  
 All figures are as quoted on the  
 day are usually last traded  
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# NEW YORK STOCK EXCHANGE PRICES

32

4 pm close January 29

NYSE LISTED STOCKS		1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	10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## 4 am close (approx.)

**EASDAQ**



صَدَقْنَا مِنَ الْإِسْلَامِ